DOMINION MONETARY POLICY

1929-1934

A STUDY PREPARED FOR THE

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

BY

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EDITORIAL FOREWORD

Professor F. A. Knox of Queen's University was retained by the Royal Commission on Dominion-Provincial Relations to assist Dr. Mackintosh in his work for the Commission (The Economic Background of Dominion-Provincial Relations) and to make a study of Dominion monetary policy from 1929 to 1934. The purpose of this study is to give a detailed account of the development of the monetary policy which Canada followed in this period as a background for consideration of the relationship between federal monetary policy, regional incomes, and provincial finances. Particular attention is given to the contention that an alternative policy of deliberate depreciation would have alleviated conditions in the exporting regions with corresponding benefit to the public finances of the provinces concerned.

The method of presentation and any expressions of opinion are solely the responsibility of the author, and not of the Commission.

Professor Knox analyzes the Canadian balance of payments with particular attention to the features which are significant in determining exchange rate movements and to those which may be affected by Dominion policy. Canada's dependence on exports of primary commodities, which are subject to wide fluctuations in demand and price, and on spasmodic borrowing, to meet the relatively stable amount of interest payments due abroad and the irregular volume of foreign debt maturities is emphasized. This composition of the balance of payments, in common with that of other raw material exporting, debtor countries, contained obvious elements of instability. Professor Knox notes that the operation of the Canadian monetary system added to this instability and tended to intensify both booms and depressions. Nevertheless the exchange value of the Canadian dollar recovered from the weakness it had shown in 1929, and instead of depreciating

further in company with the currencies of Argentina and Australia, as the depression gathered momentum, was brought back to par in 1930 mainly by unusually large net capital imports. Prior to England's departure from the gold standard neither official nor public opinion showed any particular interest in monetary policy, although the tariff increase of 1930 was noted as a factor in helping to support the dollar.

In spite of the great fall in imports, and the sale of gold and liquidation of foreign assets by the banks, the depreciation of sterling in September 1931 found the Canadian dollar in a weakened foreign exchange position. Depreciation, roughly half that of sterling, immediately followed, and made exchange policy a live issue. Exporters selling in terms of sterling found the already serious price deflation intensified, and whole industries and areas were threatened with bankruptcy. Their proposals for further depreciation of the Canadian dollar to the level of sterling were rejected, however, because public opinion was not prepared to take the then unprecedented step of deliberate depreciation, and because of fear that the credit of the country would be destroyed and foreign obligations could not be met. In addition it was felt that the increased cost of foreign debt service and essential imports would offset the increased gain of exporting groups. On these grounds the government expressed its most resolute and emphatic opposition to putting the dollar on a sterling parity base, and adopted a policy of exchange independence. The mid-way position of the Canadian dollar between sterling and the United States dollar was accepted as a "not unsatisfactory compromise" between the various Canadiam interests concerned.

During 1932 an alternative policy of price raising crystallized, and was pressed at the Ottawa Imperial Conference. An increased cash basis for the banking system and low interest rates were envisaged as a positive line of attack on deflation, although there was doubt whether it could be carried out to a

useful extent by even the Empire as a whole, acting without the co-operation of the United States. However, Canada followed this policy, the chief manifestations being the $35 million Finance Act transaction of November, 1932, and the attempts to secure lower interest rates by putting through conversion loans.

The depreciation of the United States dollar in 1933 was accompanied by further depreciation of the Canadian dollar, and roughly the former exchange relationships were restored. Thereafter there was no particular pressure for further depreciation of the Canadian dollar, and the government felt more free to proceed with its easy money policy. The latter culminated (as far as concerns the period under discussion) in the $52½ million note issue in 1934 and the organization of the Bank of Canada.

Professor Knox then briefly reviews the history of currency depreciation in Australia and Argentina, finding that in both cases serious depreciation occurred much earlier than in Canada because of the virtual cessation of capital imports and the sharp fall in exports at the beginning of the depression, and that far from deliberately adopting such a policy, depreciation was resisted until banking and other resources for the maintenance of the currency were exhausted.

Part II discusses the merits of the case for depreciation to the sterling level in 1931-33. Professor Knox briefly considers the theoretical effects of such a policy on the major exports, on general confidence, on the volume of investment and thus on the economy and national money income. His conclusion is that such a policy would have brought benefits of greatly varying importance, to the major exporting industries and areas in the country; that investment, then already at a very low level, would not likely have been further reduced; that certain price and cost disequilibria, and regional stresses and strains would have been corrected, and that the national

income would have been increased. Professor Knox believes that such a policy was both mechanically feasible, and, at the time of England's departure from the gold standard, psychologically feasible.

This study attempts nothing more than a description of the monetary policy actually followed, and discussion of a selected alternative. It is left to more general studies to consider the relationship of monetary policy, in the light of all other federal policies, to regional incomes, and to provincial finances and fiscal policy.

The first draft of this study was completed in August, 1938, and after having been circulated to the Dominion and provincial governments for comment, was revised where necessary and put in its present form in the spring of 1939.

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PART I

The Influence of the Monetary Policy of the Dominion Government on the Foreign Exchange Value of the Canadian Dollar, 1930-1934.

Introduction

The discussion in this, the first part of this memorandum, is an attempt to answer three questions: Why did the Canadian dollar not depreciate as early or as much as did the Australian pound and the Argentine peso? In what way, if at all, did the Canadian government actually support the Canadian dollar? Why did the government reject the suggestion that the Canadian dollar be depreciated?

The information required to discuss such topics is set down in the tables. Table I gives the average monthly and yearly price of New York funds and the pound sterling in Montreal. The basic facts as to the supply and demand of foreign exchange, of which use must be made in explaining these exchange rate movements, are set out in detail in the table, "Canada's Balance of International Payments, 1900-1937", in the Appendix. The chief items are summarized in a somewhat different form, better suited to the present purpose and for the years under discussion, in Table II, "Canada's Balance of International Payments, 1928-1934". Because of their particular significance for the analysis of exchange rate movements, monetary gold movements, defined as changes in the actual stock of monetary gold held by the Department of Finance against the Note Issue and by the commercial banks, have been separated from other gold movements in this table. Non-monetary gold exports are put in the current account along with merchandise exports, and the monetary gold movement is included with changes in the foreign balances of the commercial banks under the title, "Balancing Items".

The exchange rate movements of the years 1929-1934 as given in Table I show two distinct periods. During the years

TABLE I

MONTHLY AVERAGE PRICE OF NEW YORK FUNDS IN MONTREAL, 1929-1935

(In Dollars)

Month	1929	1930	1931	1932	1933	1934	1935
January	1.00	1.01	1.00	1.17	1.14	1.00	1.00
February	1.00	1.01	1.00	1.15	1.20	1.01	1.00
March	1.01	1.00	1.00	1.12	1.20	1.00	1.01
April	1.01	1.00	1.00	1.11	1.18	1.00	1.00
May	1.01	1.00	1.00	1.13	1.14	1.00	1.00
June	1.01	1.00	1.00	1.15	1.11	.99	1.00
July	1.00	1.00	1.00	1.15	1.06	.99	1.00
August	1.01	1.00	1.00	1.14	1.06	.98	1.00
September	1.01	1.00	1.04	1.11	1.04	.97	1.01
October	1.01	1.00	1.12	1.11	1.02	.98	1.01
November	1.02	1.00	1.12	1.15	.99	.98	1.01
December	1.01	1.00	1.21	1.15	1.00	.99	1.01
Average	1.008	1.001	1.043	1.136	1.092	.990	1.005

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MONTHLY AVERAGE PRICE OF THE POUND STERLING IN MONTREAL, 1929-1935

(In Dollars)

Month	1929	1930	1931	1932	1933	1934	1935
January	4.86	4.92	4.86	4.03	3.85	5.07	4.89
February	4.87	4.89	4.86	3.96	4.10	5.08	4.88
March	4.88	4.87	4.86	4.06	4.13	5.11	4.82
April	4.89	4.86	4.86	4.17	4.23	5.15	4.86
May	4.88	4.87	4.86	4.16	4.50	5.10	4.90
June	4.88	4.86	4.88	4.21	4.61	5.01	4.94
July	4.87	4.85	4.87	4.08	4.93	4.99	4.97
August	4.87	4.86	4.87	3.97	4.79	4.95	4.99
September	4.88	4.85	4.69	3.85	4.84	4.86	4.97
October	4.92	4.85	4.38	3.72	4.79	4.84	4.98
November	4.95	4.85	4.19	3.76	5.08	4.87	4.98
December	4.92	4.86	4.09	3.79	5.10	4.89	4.98
Average	4.888	4.866	4.689	3.979	4.586	4.993	4.929

Source: Dominion Bureau of Statistics, Internal Trade Branch.

1930 and 1931 the prices of the pound sterling and the United States dollar in Montreal varied little from par: this was a period of stable exchange rates. In 1932 and 1933 following the abandonment of the gold standard by Great Britain, the prices of these two currencies on Canadian exchange markets fluctuated greatly. Only in late 1933 was the former relationship between the Canadian dollar, the pound sterling and the United States dollar restored. The year 1934, the last of the years here under review, was again one of currency stability.

Chapter I. The Foreign Exchange Value of the Canadian Dollar prior to Britain's abandonment of the Gold Standard in September 1931

(a) Canada's Balance of International Payments - high variability of money income from exports and from net capital imports contrasted with relative stability of the large interest and dividend payments due abroad.

The situation from which Canada was launched in 1929 into the greatest depression of modern times was, when viewed from the present, an ominous one. The high annual variability of most of the main items in Canada's balance of international payments will strike anyone who glances at the detailed table of our balance of payments since 1900 given in the Appendix. During upward swings of the world business cycle, Canada has shared, with other economically new countries, periods of heavy capital imports and expanding merchandise trade; during depressions she has been subject to all the readjustments which must be made when drastic declines occur in the income derived from the sale of goods abroad and the import of capital. In recent years this variability has been accentuated by a growing but irregular burden of foreign debt maturities. So continuous and heavy has been the import of capital since 1900 that the annual debits in our balance of international payments because of interest payments and the meeting of maturities are now large. The annual amount of interest and dividend payments due on balance to other countries does not vary much from year to year. This steadiness accentuates the pressure on the balance of payments in years of depression. A given and but slightly diminished liability has to be met at such times out of a rapidly declining income from the sale of goods and services abroad and the import of capital.

Since maturities of previously-issued securities became a considerable factor in Canada's balance of payments about 1924, their annual amount has varied between a high of

$270 million and a low of $104.7 million; in four years since 1924 the variation from the year before has been almost $100 million.(1) This bunching of maturities in particular years is due to the issuing of larger numbers of securities in good bond-market years; to the fact that the market often favours bonds of a particular term; and to the custom of issuing bonds for periods of ten, twenty or some other round number of years. If a year of heavy maturities happens to coincide with business depression, the country may suffer seriously from the lack of attention to such possibilities when the securities were being issued.

(b) The working of Canada's monetary system accentuated the boom and led to the abandonment of the gold standard early in 1929. At the onset of the depression it appeared that the foreign exchange value of the Canadian dollar would decline.

Since debtor countries are peculiarly dependent upon international transactions which have this high variability throughout the several phases of the business cycle, their national money incomes show much wider variations than do those of more mature countries. Unfortunately this variability may be accentuated by the inflationary and deflationary tendencies of a competitive commercial banking system uncontrolled by a central bank. In times of business prosperity the commercial banks of capital-importing countries acquire increased cash reserves readily. This cash from abroad becomes the basis for a considerable addition to the volume of bank deposits; the national money income grows rapidly. When good times turn into bad, the inflow of cash may turn into an outflow. The consequent reduction in bank cash reserves may, if it be severe, force the banks to refuse their customers some of the accommodation they desire. If this occurs the banks become active agents of monetary contraction. The reduction of money income, inevitable in depression, is increased.

(1) See table in the Appendix, Column XIX.

Central banks attempt to prevent this sort of contraction by providing the commercial banks with adequate cash reserves. But in 1929 Canada had no central bank. Borrowing under the terms of the Finance Act was, it is true, a possible way of increasing cash reserves. But experience has shown that banks are reluctant to borrow during depressions. It was probable therefore that the national money income in Canada would be sharply reduced upon the onset of depression by the inevitable drop in the value of exports, by the reduction or cessation of a net capital inflow and also by a shrinkage in bank lending because of a fall in bank cash reserves.

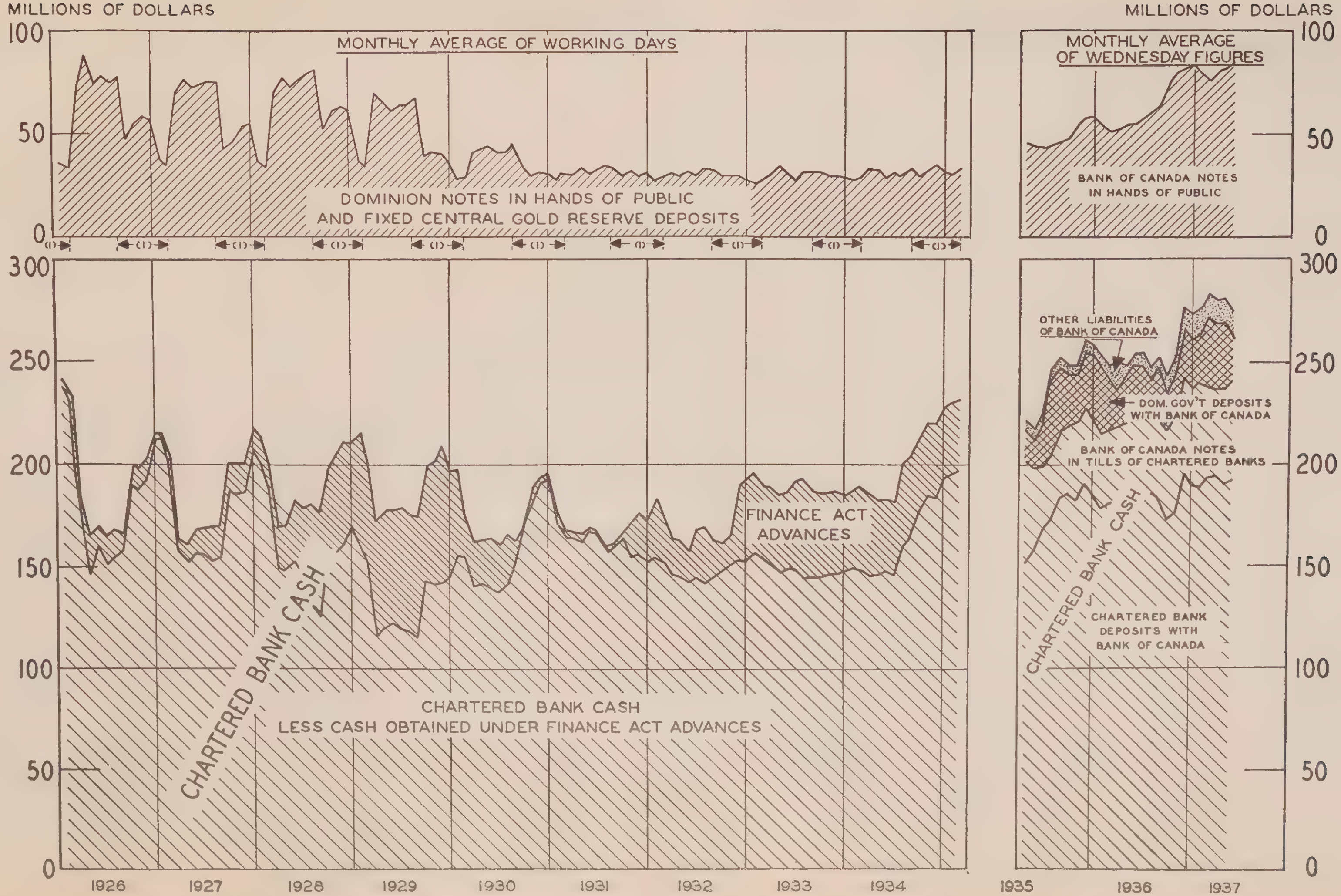
The severity of this reduction in money income was likely, in the circumstances of 1929, to be particularly serious because of the unusually high level to which the boom in Canada had attained. In 1928 the level of business and the national money income were already so high that a large adverse balance of international payments had led to an outflow of monetary gold (Table II). Normally such a loss of cash reserves by the banks would have forced a reduction of bank lending and moderated the current expansion of business. But the banks replaced their lost reserves by borrowing under the Finance Act (Chart I). They thus shifted the drain of gold to the government's reserves and were able to finance further business expansion. The buying of foreign goods and the investing of money abroad by Canadians went to such lengths that the Dominion government's gold reserve against the Dominion note issue was brought to a low level by the gold drain. The government therefore ceased to provide gold for export early in 1929. Thus Canada abandoned the gold standard well before the onset of the depression. If such action was necessary before the boom broke, the prospects of a resumption of gold payments after the crisis had set in were poor indeed.

Apparently then, in 1929 Canada was headed for currency depreciation as surely as was Australia, Argentina or any other

CHART I

CHARTERED BANK CASH: CANADA

Source: Statistical Summary of the Bank of Canada



(1) INDICATES THE CROP-MOVING SEASON DURING WHICH CHARTERED BANKS WERE PERMITTED TO EXPAND THEIR NOTE CIRCULATION BY 15% OF THEIR COMBINED CAPITAL AND RESERVE FUNDS

primary-commodity-producing, capital-importing country. The pressure on her foreign exchanges had already sadly depleted the Dominion government's stock of gold. The balance of payments was sure to suffer further deterioration from the fall in export prices already under way. Unless net capital imports rose to unprecedented heights the large interest and dividend payments on foreign investments in Canada would bear heavily upon a diminishing amount of foreign exchange available from net exports of goods and services. Since the resumption of monetary gold exports was improbable, a rapid rise in the value of foreign exchange seemed the likely outcome.

(c) The sharp increase in the net inflow of capital, partly the result of fortuitous circumstances, prevented the depreciation of the Canadian dollar in 1930. Dominion government borrowings in New York and higher tariffs were contributory factors.

But the Canadian dollar did not depreciate. In the early months of 1930 both New York funds and sterling funds returned to par and even went to a slight discount. Not until mid-1931 did that rise in the price of foreign exchange to which all signs pointed in 1930, at last appear. The Canadian dollar fell little in value until after the United Kingdom abandoned the gold standard and the pound had declined sharply. In the writer's opinion this behaviour of the Canadian dollar is the chief reason for Canada's choice of a "sound money" policy. Had the Canadian dollar gone the way of the Argentine peso and the Australian pound the Dominion government would have accepted its depreciation. No government would have dared to subject the country to the deflation that would then have been necessary to restore the dollar to par.

The explanation of the Canadian dollar's failure to depreciate is simple. Canada's net import of capital in 1930 rose to $315.7 million, the highest net capital import of any year since 1914 by over $100 million and, what is more significant, $249.6 million larger than the net import of capital for the year 1929. The summary of the balance of payments position shown in

Table II reveals the fact that this additional credit of $249.6 million in 1930 enabled us to pay the highest current account deficit of the whole period 1928-1935 and yet have a surplus of credits by which our banks were enabled to import just under $20 million of gold without reducing their foreign balances. The Canadian dollar returned to par because, through a rise in net capital imports, Canadians got possession of a volume of foreign exchange in excess of the demand for it at any higher price.

The effect of this very large net capital import in 1930 on the foreign exchange value of the Canadian dollar was enhanced by the fact that the current account deficit was only slightly larger in 1930 than in 1929 (Table II, item 9). One would have expected a sharp increase in the current account deficit because the prices of exports of foods and raw materials tend to fall more rapidly in the early stages of a depression than those of imported manufactured commodities. But the fall in value of imports actually exceeded the decline in the value of exports. Although export prices fell more than import prices, the fall in the latter was an important cause of the shrinkage in the value of imports.(2) A reduction in the number of new construction projects probably reduced the import of industrial raw materials. The decline in the physical volume of production and the reduction in the money income of exporters both tended to a reduction of imports.

The large net capital import of 1930 is to be attributed not only to borrowing by the Dominion government but also to two fortuitous developments. That the volume of new issues of securities by governments and private borrowers reached a peak of $426.3 million in 1930, as shown in Table III, was the natural result of uncompleted projects, unimpaired credit and easier conditions in the New York bond market. Even apart from the $100 million Dominion government loan of 1930, the total net borrowings would have exceeded those of 1929 by over $50 million (Table III).

(2) In 1929 the index number of the wholesale prices of imported commodities stood at 94.2 (1926 = 100); in 1930 it had fallen to 83.7. The change in the index of the wholesale prices of exported commodities was from 92.2 in 1929 to 77.4 in 1930. (Canada Year Book, 1936, p. 821)

TABLE II

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS, 1928-1934.(a)
(In Millions of Dollars)

Calendar Year	1928	1929	1930	1931	1932	1933	1934
Current Account -							
1. Exports	+ 1,355.4	+ 1,169.3	+ 874.6	+ 593.7	+ 492.4	+ 532.3	+ 652.9
2. Imports	- 1,224.4	- 1,300.6	- 996.7	- 611.1	- 418.7	- 385.7	- 504.8
3. Balance of trade	+ 131.0	- 131.3	- 122.1	- 17.4	+ 73.7	+ 146.6	+ 148.1
4. Gold exports - non-monetary	+ 12.6	+ 36.3	+ 22.3	+ 43.4	+ 60.6	+ 79.4	+ 109.6
5. Gold and trade balance	+ 143.6	- 95.0	- 99.8	+ 26.0	+ 134.3	+ 226.0	+ 257.7
6. Tourists and minor items, balance	+ 132.5	+ 121.1	+ 121.5	+ 128.8	+ 92.7	+ 9.9	+ 28.7
7. Trade, gold, tourists, minor items, balance	+ 276.1	+ 26.1	+ 21.7	+ 154.8	+ 227.0	+ 235.9	+ 286.4
8. Interest and dividends, balance	- 221.0	- 260.1	- 288.6	- 279.8	- 261.8	- 224.3	- 211.6
9. Balance of all current account items	+ 55.1	- 234.0	- 266.9	- 125.0	- 34.8	+ 11.6	+ 74.8
Long-term Capital account -							
10. New securities issued, less maturities, etc.	+ 7.3	+ 132.6	+ 290.3	+ 9.3	- 1.0	- 26.1	- 58.0
11. Net trade in outstanding securities	- 188.0	- 105.0	- 13.0	- 24.0	- 16.0	+ 51.0	+ 8.9
12. Net, all other forms of investment	+ 6.1	+ 34.0	+ 31.9	+ 32.8	- 32.1	- 75.3	- 47.8
13. Total net long-term capital movement	- 168.6	+ 66.1	+ 315.7	+ 19.4	- 49.1	- 50.4	- 96.9
14. Sum of Current and Capital Account Balances (9 + 13)	- 113.5	- 167.9	+ 48.8	- 105.6	- 83.9	- 38.8	- 22.1
Balancing items -							
15. Capital movement arising from net change in bank balances abroad	+ 86.6	+ 87.8	- 0.4	+ 27.7	+ 37.7	+ 23.9	- 18.9
16. Net monetary gold movement	+ 76.6	+ 38.2	- 19.6	+ 46.7	+ 12.5	+ 8.4	-
17. Total of (15 + 16)	+ 163.2	+ 126.0	- 20.0	+ 74.4	+ 50.2	+ 32.3	- 18.9
Residual item -							
18. Amount required to balance the account because of errors and omissions	- 49.7	+ 41.9	- 28.8	+ 31.2	+ 33.7	+ 6.5	+ 41.0

(a) All items in this table are taken from the detailed table in the Appendix except gold which is here split into non-monetary gold (item 4) and monetary (item 16). Some recombinations of the items in the detailed table in the Appendix have been made here. Plus signs indicate credits; minus signs indicate debits.

That maturities of securities formerly issued should have fallen to $99.2 million (Table III), the lowest amount for any of the years 1927-1936, was the first of the accidents of the year. The small volume of maturities abroad was the result of the maturity dates given securities issued in former years and the proportion estimated to have been taken outside Canada at the time of issue. As a consequence the net capital import through new issues of securities, less maturities and redemptions, reached a total exceeded only twice since 1900.(3) The other important change to be noted here, though hardly an accident, is not the product of the foresight of any government. The rising incomes of Canadians during the boom years 1926-1929 led them to participate heavily in the international trade in Canadian and foreign securities. The Dominion Bureau of Statistics estimates the net movement of securities to have been heavily inward in each of these years (See table in Appendix, Column XXI). The amounts were large enough to make Canada a net capital exporter in the years 1925, 1927 and 1928. In the latter year the net purchase of securities rose to $188 million (Table II, item 11); in 1929 the net purchase stood at $105 million; in 1930 it fell to almost nothing. The significance of this new item in our balance of payments is two-fold. During the boom years the stimulating effect on the national money income of capital imports arising from the continued heavy issues of securities abroad, was partly offset by this capital export. As a consequence the adverse balance on current account did not rise to the heights it might have attained. In the second place, when the depression began this outflow of funds ceased with the fall of the security markets, thus greatly reducing the demand for foreign exchange and easing the strain on the rate. Not only did this new net capital export mitigate the boom and so lessen

(3) The differences between the totals shown in Table III and those of Table II are due to minor revisions which have been incorporated in the latter table.

ESTIMATED NEW ISSUES OF CANADIAN SECURITIES SOLD TO SYNDICATE MEMBERS RESIDENT OUTSIDE CANADA, AND RETIREMENTS OF CANADIAN SECURITIES ORIGINALLY SOLD OUTSIDE CANADA
(In millions of dollars)

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
New Issues -										
Dominion Direct	-	-	-	100.0	42.1	60.0	133.6	101.4	106.0	79.0
Dominion Guarantees	-	-	11.0	7.6	-	-	-	-	-	-
Provincial Direct	83.1	53.3	90.4	102.1	87.6	34.7	-	-	-	-
Provincial Guarantees	1.0	-	-	2.5	-	8.8	-	-	-	-
Municipals	28.4	8.6	20.8	45.5	26.9	0.1	-	6.2	6.1	-
Steam Railways	87.6	32.7	104.9	90.9	74.2	-	3.7	2.7	4.5	-
Other Corporations	121.4	129.0	79.7	77.7	5.7	1.0	2.3	3.6	1.3	38.1
Total	321.5	223.6	306.8	426.3	236.5	104.6	139.6	113.9	113.4	117.1
Retirements -										
Dominion Direct	3.4	8.9	58.1	3.7	88.2	3.8	69.5	94.4	57.5	83.6
Dominion Guarantees	-	-	-	-	-	-	-	-	-	-
Provincial Direct	51.6	41.5	32.3	27.4	58.6	40.0	32.0	14.8	24.8	16.3
Provincial Guarantees	0.5	0.5	0.5	0.6	0.6	0.3	4.7	0.1	-	0.5
Municipals	6.8	8.2	14.2	16.2	18.5	29.9	12.5	8.5	15.5	20.0
Steam Railways	61.7	33.0	8.3	38.6	12.8	11.9	13.0	38.7	145.0	52.5
Other Corporations	24.2	91.3	23.0	12.7	29.6	21.1	33.6	16.1	25.3	84.7
Total	148.2	183.4	136.4	99.2	208.3	107.0	165.3	172.6	268.1	257.6
Net -					28.2					
Dominion Direct	- 3.4	- 8.9	- 58.1	+ 96.3	- 46.1	+ 56.2	+ 64.1	+ 7.0	+ 48.5	- 4.6
Dominion Guarantees	-	-	+ 11.0	+ 7.6	-	-	-	-	-	-
Provincial Direct	+ 31.5	+ 11.8	+ 48.1	+ 74.7	+ 29.0	- 5.3	- 32.0	- 14.8	- 24.8	- 16.3
Provincial Guarantees	+ 0.5	- 0.5	- 0.5	+ 1.9	- 0.6	+ 8.5	- 4.7	- 0.1	-	- 0.5
Municipals	+ 21.6	+ 0.4	+ 6.6	+ 29.3	+ 8.4	- 29.8	- 12.5	- 2.3	- 9.6	- 20.0
Steam Railways	+ 25.9	- 0.3	+ 96.6	+ 52.3	+ 61.4	- 11.9	- 9.3	- 36.0	- 140.5	- 52.5
Other Corporations	+ 97.2	+ 37.7	+ 56.7	+ 65.0	- 23.9	- 20.1	- 31.3	- 12.5	- 24.0	- 46.6
Total	+ 173.3	+ 40.2	+ 170.4	+ 327.1	+ 28.2	- 2.4	- 25.7	- 58.7	- 154.7	- 140.5

Source: Dominion Bureau of Statistics.

the readjustments to be made later but also, its cessation relieved the foreign exchange markets of a considerable pressure. Thus the lapse of maturities to their low, the cessation of net purchases of previously-issued securities from residents of other countries and the rise of new issues to their peak, combined to produce that extraordinary net import of capital which brought the Canadian dollar back to par in 1930 in opposition to the trend common to debtor countries.

The actions of the Dominion government bear directly on these changes in Canada's balance of international payments for 1930 at two points. In the first place the higher tariff duties imposed at the special session of Parliament in September 1930 operated during the last quarter of the year as an additional restriction upon the volume of imports. The second point is probably of more importance however. Without the $100 million loan floated by the Dominion government in New York late in 1930, the net capital import for the year might have been insufficient to meet the deficit in the balance of payments on current account (Table II). In that case the lessened supply of foreign exchange would probably have caused a rise in its price; the dollar would have depreciated.

The Dominion government's need for funds during the fiscal year ending March 31, 1931 arose from a current account deficit of $74 million, requirements of the national railways of $70 million, and public works $22 million. In the Budget speech on June 1, 1931 the Minister of Finance in discussing the loan, mentioned the needs of the railways, a $45 million domestic maturity on December 1, 1930, and $25 million falling due in New York on April 1, 1931.(4) In view of the pronounced easing of the New York bond market during the year, it is probable that the government was induced to borrow there rather than in Canada by favourable terms. Such action, moreover, would ease the strain on the domestic bond market leaving its resources available

(4) House of Commons Debates, Session 1931, Vol. II, pp. 2149ff.

to other borrowers whose credit did not stand so high in New York. Though the support given the Canadian dollar by borrowing abroad rather than in Canada is obvious, there is no evidence that this aspect of the transaction was an important motive in inducing the Dominion government to borrow abroad rather than in Canada. Throughout the year the supply of foreign exchange was so abundant that its price fell; the Canadian dollar returned to par after having gone to a discount in New York in 1929. The government would have been surprised had anyone suggested that the Canadian dollar needed support. Yet it is clear that the added supply of foreign exchange provided by Dominion government borrowing in New York was an important factor in maintaining the value of the Canadian dollar on foreign exchange markets in late 1930 and early 1931.(5)

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(5) The very intimate relation between the capital markets in Canada and the United States has led some to regard the North American capital market as in effect one, from which any particular North American region might draw up to the limits set by the opinion of investors. They believe it possible therefore that had the Dominion government not borrowed $100 million in New York in 1930 other borrowers might have been able to borrow more in the United States than they in fact did. If this be true then the borrowing by the Dominion government cannot be regarded as supplying additional foreign exchange to the amount of $100 million and this act of the Dominion government had in fact much less significance in supporting the foreign exchange value of the Canadian dollar than is commonly supposed.

But even if this possibility be ignored, there are important offsets to the deflationary pressure undoubtedly exercised by the continued high value of the Canadian dollar to which Dominion government contributed. The national money income was raised directly by the proceeds of the loan as these were spent by the Dominion government. A yet more important result of the favourable balance of payments position of 1930 to which this loan contributed was the improvement in the cash reserve position of the Canadian commercial banks. A reference to Chart I will show that the banks were able to pay off practically all their borrowings under the Finance Act and at the same time to raise "Chartered Bank Cash" almost to the levels of the boom years. Part of this improvement was due to the return of cash from circulation in Canada. But an important part of it was provided from the net credits shown in the balance of payments for 1930. From the foreign exchange thus obtained, the banks were able to meet all demands for foreign exchange at current rates, to maintain their net foreign balances (Table II, item 15) and to import on balance $19.6 million of monetary gold (Table II, item 16). Such a remarkable improvement in bank cash reserves is unusual in the first year of depression. It sufficed to postpone any "scramble for cash" amongst the banks and the monetary contraction which might otherwise have arisen from a fall in bank cash reserves. Whether or not the banks voluntarily restricted their lending in an effort to improve their cash reserve ratio is quite a different matter not here under discussion; the point is that so far as their cash reserve position was concerned there was little excuse for restriction.

(d) Canada's foreign exchange position weakened steadily during 1931. Depreciation of the dollar was prevented until Britain's abandonment of gold by the fall in imports and the sale of gold and foreign assets by the banks. The restrictive effects of higher tariffs were important but the Dominion government's borrowing abroad was less than its own maturities abroad.

That so favourable a position in Canada's dealings with other countries as that of 1930 would not continue was to be expected, but the change for the worse in 1931 was very severe. Total income from exports, other current items, and capital imports fell to 58.9% of its 1930 level, a loss of almost $550 million in one year (Table IV). This is accounted for by the virtual disappearance of net capital imports and a great fall in merchandise exports. Non-monetary gold exports increased and net tourist income was well maintained. That the excess of outward payments was not greater is due to a further drastic curtailment of the value of merchandise imports. So great was this fall indeed that the balance of trade, including non-monetary gold, became favourable for the first time since 1928 (Table II). The fall in the Canadian national money income resulting from the cessation of net capital imports and the drastic decline in the value of exports was probably the chief reason for this startling decrease in imports, though higher tariffs undoubtedly played an important part.

TABLE IV

Canada's Balance of Payments 1930 and 1931 (a)

(in millions of dollars)

Income:	1930	1931	Change
From merchandise exports including non-monetary gold	896.9	637.1	-259.8
From tourists and other current items net	121.5	128.8	+ 7.3
From net long-term capital imports	315.7	19.4	-296.3
Total income	1,334.1	785.3	-548.8
Outgo:			
Net interest and dividend payments to other countries	288.6	279.8	- 8.8
Payments for merchandise imports	996.7	611.1	-385.6
Total outgo	1,285.3	890.9	-394.4
Excess of income	48.8	-	
Excess of outgo	-	105.6	

(a) For details see Table II and the table in the appendix.

The Canadian commercial banks made up roughly three-quarters of the deficit in the 1931 balance of payments by the export of $46.7 million of monetary gold and the sale of foreign assets to a net amount of $27.7 million (Table II, items 15 and 16).[6] As a result of the export of monetary gold, the cash reserve position of the commercial banks deteriorated steadily through 1931 (Chart 1). By the last quarter of the year some of the banks had recommenced borrowing under the Finance Act. It is clear then that there was pressure on the foreign exchanges which increased as the year wore on. Actual depreciation of the Canadian dollar in New York did not occur however until September when Britain abandoned the gold standard. By December, the premium on New York funds in Montreal stood at an average of 21%, the high point for any month during the depression. The additional foreign exchange provided by the banks from their foreign balances and the export of monetary gold was thus shown to have been insufficient to meet fully the demand for exchange at or near par; the prices of foreign currencies therefore rose.

The direct effect of the actions of the Dominion government on the exchange rate in 1931 is to be seen most clearly in the influence of higher tariffs in restricting imports thus tending to support the dollar. Dominion borrowing abroad, however, was less than its own maturities abroad by $46.1 million (Table III). New issues of securities abroad by the provinces and other authorities were so much reduced in 1931 that the total of new issues taken abroad was smaller by almost $200 million. At the same time maturities abroad were unusually high, over $100 million higher than in 1930. The loss of roughly $300 million of income from capital imports in 1931 (Table IV) in comparison with 1930 is thus accounted for. The unusual feature of the

(6) The remainder of the deficit is a discrepancy unaccounted for. It indicates the presence of errors and omissions in the estimates themselves.

balance of payments for these two years is not, however, the low level of net capital imports in 1931, the second year of depression, but rather its particularly high level in 1930. The high level in 1930 is, to repeat, due to the sale abroad of the largest volume of Canadian securities of any year since 1914 (cf. table in Appendix, Column XVIII) combined with an unusually low volume of maturities. In 1931 new issues were sharply down and maturities higher than ever before with the single exception of the year 1919.

The fall of the Canadian dollar to a discount in New York in the last quarter of 1931 brought the period of exchange rate stability to an end. Canada's more favourable balance of payments position explains the failure of the dollar to depreciate as early in the depression as did the currencies of our chief competitors in the wheat export trade, Australia and Argentina.(7) This more favourable position was due primarily to a very large net capital import in 1930 the like of which had not been seen since the early 1920's. The net capital import for the two years 1930 and 1931 of $336.1 million is to be contrasted with a net capital export for the years 1928-1929 of $102.5 million (Table II). Even had the Dominion government not borrowed abroad in 1930 and 1931 the net capital raised abroad by the sale of securities in 1930-1931 ($213.2 million) would still have exceeded the net capital import through such security sales in 1928-1929 ($210.6 million) (Table III). It is true that other items in Canada's income from abroad were well maintained, particularly the tourist trade; the sharp reduction in the value of merchandise import also eased the strain on the available supply of foreign exchange. But that supply would have been quite inadequate to meet the demand for foreign exchange at the prices which actually prevailed in 1930 and 1931 apart from the heavy import of capital.

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(7) The reasons for the decline in these currencies are discussed briefly in Chapter IV.

(e) The government's "sound money" policy, based on opinion widely held in Canada, encouraged the stream of capital imports which did more than anything else to hold up the dollar during 1930-31. The alternative policy of deliberate depreciation urged by a group of western members got little support either in Parliament or in the country.

Canada's ability to borrow in foreign money markets, so much longer than such countries as Australia and Argentina, is due to the fact that she had borrowed much less on balance than they in the years before the depression and to the continued confidence of United States investors in Canadian securities. A most important element in this confidence of investors was the orthodox, "sound" money views generally held by those in authority in Canada and by the people at large. Critics of the monetary policy of the Dominion government err in attributing the continued high level of the dollar in 1930 and early 1931 to its direct support of the exchanges by borrowing abroad and raising tariffs. Aside entirely from the fact that neither tariff increases nor borrowing abroad were undertaken with their probable effects upon the rate of foreign exchange in mind, these actions of the government had much less influence on the balance of payments than its careful abstention from any actions which would have injured the credit of the country's securities abroad. A brief examination of the monetary opinions of the Dominion government in 1930 and 1931 must now be undertaken in support of this view.

The main question before the Canadian public in the election campaign of July 1930 and the special session of Parliament which followed it, was unemployment. Monetary remedies for unemployment entered the discussion only at the instance of a group of independent members of Parliament from the western provinces. They criticized the government's proposals to finance a public works programme by taxation and borrowing from the people, on the ground that consumer purchasing

power would not thereby be increased, and the hoped-for stimulus to employment would not follow. To increase consumer purchasing power they suggested that the public works be financed by the amendment of the Dominion Notes Act so as to permit the issue of more Dominion notes. As the Act stood no more notes could be issued unless the gold held by the Minister of Finance against Dominion notes was correspondingly increased.

It is significant that the Prime Minister rejected the proposal not so much because of possible fallacies in the economic reasoning by which it was supported as on the ground that to expand the Dominion note issue without adding to the gold reserve would damage the country's credit abroad and lead to the depreciation of the dollar.

The Prime Minister said, in part,

> "...The suggestion which my honourable friend has made is one of which I was not enamoured when first it was proposed and which at this moment I do not think is sound. Unless the paper money of this country has behind it an adequate reserve of the only commodity that passes in the settlement of international exchanges namely, gold, I would suggest that it is of very little value; and to the extent to which the reserve may be depleted or the ratio decreased by the issue of legal tender or of Dominion of Canada bills, to that extent is there a possibility of the money of this country becoming debased and not of par value in the countries of the world... (the use of the printing press)... would hardly serve as a palliative in the present situation.
>
> "...In so far as the question of the emission of paper money by this country without reference to the gold reserve is concerned I certainly am not prepared to take any action at the moment...., so far as the present moment is concerned, having regard to the position that this country must take amongst the countries of the world I certainly would not be prepared to ask parliament to agree to the emission of legal tenders by the Dominion without having behind it the ratio of gold reserve which is essential to give it value in the market places of the world". (8)

The drastic fall of wheat prices in 1930 had not sufficed to restore the competitive power of the Canadian wheat exporter which had been undermined by the fall of the Australian

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(8) House of Commons Debates, Special Session 1930, p. 78 and p. 114.

pound and the Argentine peso. The independent members therefore suggested in the 1931 session of Parliament that the Canadian dollar should be depreciated also. This would occur of itself, they argued, if the government were merely to withdraw the support which it was giving to the dollar. The gold standard should be abandoned and borrowing abroad curtailed. If this were done the unfavourable balance of trade would soon lead to the fall of the Canadian dollar.[9] Though oft repeated throughout the session, these proposals got small attention. The official opposition joined the government in condemning any action which might have opened the door to inflation. It would have been easy to offer, in the circumstances of the time, weighty considerations against deliberate depreciation. But it was not deemed necessary, so general was the support of the government's position in the country.

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(9) House of Commons Debates, Session 1931, Vol.I, pp.92ff. The Prime Minister's insistence that the statutory gold reserve against Dominion notes be carefully maintained and the return of the dollar to par were probably responsible for the common view at the time that Canada was still "on the gold standard". In fact this was not so. The redemption of Dominion notes in gold on demand had ceased. It was no longer possible to get gold for export except by arrangement with the Department of Finance. The price of foreign exchange was free to vary according to conditions in a free market. The return of the dollar to par in 1930 in spite of an adverse trade balance (Table II, item 3) arose from an offsetting heavy capital import of the size and significance of which contemporary observers were ill-informed. Had the Dominion government not borrowed abroad the dollar might have depreciated a little sooner in 1931; it is unlikely that its value in 1930 would have been much affected. Certainly there was no possibility of a considerable depreciation apart from deliberate and positive action to force the dollar down.

Chapter II - The abandonment of the Gold Standard by Great Britain and the Decline of the Canadian dollar price of Sterling.

(a) The abandonment of the gold standard by Great Britain made the question of the deliberate depreciation of the Canadian dollar a practical issue. A group of western members urged that the dollar be tied to sterling. Popular scepticism of the advantages of monetary experiment, uncertainty as to the future value of sterling, fear for the credit of the country, and the heavy foreign debt obligations caused the government to reject such a policy and to follow one of monetary independence.

The shock felt all over the world at the abandonment of the gold standard by Great Britain on September 21, 1931 was fully shared at Ottawa. Not only was there consternation at so early an abandonment of the international monetary standard to which the whole world had returned but a few years before, under the leadership of Great Britain herself; there was also uncertainty as to the probable extent of its reactions upon Canada. Fears were held that the confidence of foreign investors in Canadian securities might suffer. The government therefore immediately announced that Canada would not follow Great Britain's example. During the course of a debate in the House of Commons early in 1932 the considerations which were uppermost in taking this action were clearly indicated by the Prime Minister. Relating "what we had to do" when Britain abandoned the gold standard, he said in part:

> "... I said it was for the people of Great Britain to determine what they would do but we would contrive to meet our obligations in gold where we had promised to pay in gold. We had to do that or our credit was gone. We were deprived of the market for our securities. England being no longer in a position to meet any requests we might make for assistance, having failed to maintain her position as a free gold market despite the advances made by France and by the United States in the form of gold credits, we were thrown upon one market and one market only -- the market of New York. And not only that. Upon what we said that night depended the credit of the country. Let us have no misunderstanding about it. The international bankers of that city knew far better than some of the members of this house the terms of our Finance Act, our Currency Act, our Dominion Notes Act, our Bank Act. It is not necessary for me to do more than make that statement. They were aware therefore, that technically since 1929, the country had been off the gold standard as the honourable gentleman has defined it, but we were still working under the provisions of the Currency Act which provided gold

coverage in the terms enacted for our Dominion note issue. I said we proposed to meet our obligations in the terms of our promises, and we have done so ... That is the position in connection with the application of the gold standard to our country.

"... I say frankly that but for Great Britain going off the gold standard and but for the depreciation of the pound and the difficulties the pound has experienced, the dollar of this country would be worth par or practically par in New York. About that there need be practically no difficulty. That is the reason why this Government has laboured day after day and week after week first to create and then to maintain a favourable trade balance; because we could not face the possibility of having to pay in the only medium that would be accepted universally, gold, an adverse balance which a year ago, Mr. Speaker, was $103,000,000. We have converted that into a favourable balance where the gold due to us is between $10,000,000 and $15,000,000."(10)

The fall of the pound sterling had serious repercussions in Canada particularly in the export producing regions. The exchange rate question was thus brought forcibly to the attention of many members of Parliament. It was raised in the House of Commons quite early in the 1932 Session (February 15) by a puzzled member whose constituents had suffered from the fall of the pound. He moved that "If the British Empire is to become an economic unit, the stabilization of the currency within the Empire is very important" and should be on the agenda for the coming Ottawa Conference. His remarks were received by the House in silence. It would have passed to other business had not the independent members seized upon the occasion to precipitate one of the most important debates of the session on monetary policy.

They noted that world opinion was swinging rapidly to a belief in currency management and away from that "unmanaged accident of stupidity known as the gold basis". Since international management of money was impossible under the conditions of the time, an attempt should be made to have Empire management. The larger the area under one management the better. In reply, the Minister of Trade and Commerce came out flatly against management and in favour of automatic currency systems because of the danger of entrusting management of money to any one group and

(10) House of Commons Debates, Session 1932, Vol. 1, p. 648.

because of the international clash of interests involved. He moved an amendment instructing the Canadian representatives at the coming Ottawa Conference to "initiate and support measures for the stabilization of the currencies of all British countries in such manner as to facilitate trade between the component parts of the Empire and to promote economic unity therein".(11) He admitted under questioning that the government had already initiated studies on this topic preparatory to the conference.

Participating in the debate the Prime Minister emphasized the importance of stabilization of currencies.

> "... Few things have done more injury, using that word in a broad sense, than the action taken in Great Britain in going off the gold standard. As a matter of fact, it wrecked the financial structure of practically every country in the world except two, and the loss sustained by Canada and by other parts of the empire was very, very great." (12)

In answer to questions, he showed that he thought exchange rate stabilization was the primary requirement; raising of price levels would come later and be facilitated by stabilization. A U.F.A. member following the Prime Minister challenged this idea of great damage done by Britain's abandonment of gold. Signs that the deflation had been halted in England and recovery begun were not wanting. Already the stimulus of this change had been felt outside Great Britain. He thought Canada should go off gold at once, dissociating herself from the gold standard groups of countries where deflation was still the rule and should tie the dollar to the pound because in Great Britain price level stability had been achieved. After a time both exchange rate and price stability would thus be attained in Canada. Stabilization should be at least at the old par for the pound.

Very soon after the conclusion of this debate the independent members raised both the domestic and the international aspects of the monetary question by moving a double-barrelled

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(11) House of Commons Debates, 1932, Vol.1, p. 514.
(12) House of Commons Debates, 1932, Vol.1, p. 525.

resolution. Its first section called for an inquiry into the banking system by the House committee, the second for stopping redemption of Dominion notes in gold. The burden of their argument again was that the deflation inevitable in a depression was being aggravated in Canada by continued adherence to the gold standard. The deliberately deflationary monetary policy of the gold bloc countries was being imposed upon us by our continuance upon the gold basis.(13) The export of gold was reducing commercial bank reserves and forcing them to reduce their lending to the public or their purchase of securities.

Against the suggestion that the conditions of Dominion note issue should be altered, the government was adamant, basing its objections mainly upon the disastrous effects it was believed such action would have on the country's credit and its ability to borrow both at home and abroad.

But the reform of the monetary system, particularly with respect to the Finance Act, the Prime Minister thought well worthy of consideration. The important defect of this act was that under its provisions Dominion notes might be issued without any gold reserve whatever. The time to consider it however would come next year when the periodical revision of the Bank Act would have to be made.

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(13) See footnote (9) on p. 21 above as to the confusion between being on the fully-operating gold standard with the currency redeemable into gold which might be freely exported and being on what was vaguely called the "gold basis". Since the redemption of the currency into gold had in fact been suspended and since the export of gold except by licence of the Department of Finance had been prohibited by Order-in-Council on October 19, 1931, we could no longer be said to be on a complete gold standard. It could not validly be contended therefore that the monetary policy of the dominant gold standard countries was being automatically forced upon Canada. In so far however as the government chose to observe the provisions of the Dominion Notes Act limiting the issue of currency closely to the country's gold stock, it was true that monetary expansion by the issue of more Dominion notes was not possible. Other methods of monetary expansion were at hand however, whenever the government should choose to use them. (See below p. 33 for discussion of the action of November 1932).

In his review of the events of the year on the occasion of the Budget speech later in the session, the Minister of Finance covered much the same ground. He explained that since the export of gold had been prohibited on October 19, 1931, the government had been able by the purchase of the current gold output to meet the obligations of the Dominion and to provide funds at times for the provinces and the national railways. All obligations for principal and interest had been met. The nearest the financial critic of the opposition came to monetary policy in his address was his criticism of the exchange dumping duty as a method of restricting the flow of imports into Canada.

During the same debate the independent members came out with a more radical proposal than any they had yet made. Their amendment to the opposition amendment called for the issue of enough money "to bring the value of the dollar as speedily as possible to that point at which the major part of our debts were incurred during the war; stabilize the dollar at this point internally and thereafter manage credit and currency issues to secure and maintain a stable price level in Canada". The only new feature of the wide-ranging debate which ensued, was the argument put forward by the independents that the strenuous efforts of the government to maintain the value of the Canadian dollar were not at all necessary to enable us to pay all our debts abroad. In support of this contention they appealed mainly to the experience of Great Britain since its abandonment of gold. The loans raised abroad to help maintain the pound had been met in full, they noted, and the price of British bonds had risen to a very high level in New York. Canada's experience would have been similar had she depreciated the dollar along with the pound in 1931. As it was, prices and the volume of business in Canada had been restricted more than they need have been. The revenues of exporters were being reduced to keep up the rate of exchange, i.e., to subsidize those with foreign debts to pay.

(b) During 1932, the Canadian dollar stood at a premium with respect to sterling and at a discount with respect to the United States dollar. Imports, partly as a result of increased restrictive measures, continued to fall more rapidly than exports. A favourable balance of merchandise trade appeared and the net long-term capital movement turned outward.

Two factors dominate the balance of international payments in 1932, world depression at its worst and the new position of the Canadian dollar in terms of the United States dollar and the pound sterling (Table I and Chart II). The renewed decline in world business which began with the European financial crisis of the summer of 1931 was accentuated during 1932 by its spread to the United States. As a consequence, the value of our export trade further declined; net tourist income showed a long-delayed shrinkage; and for the first time since

Table V.

Canada's Balance of International Payments 1931 and 1932.

(in millions of dollars)

	1931	1932	Change
Income			
From merchandise exports including non-monetary gold	637.1	553.0	- 84.1
From tourists and other current items net	128.8	92.7	- 36.1
From net long-term capital imports	19.4	-	- 19.4
Total Income	785.3	645.7	-139.6
Outgo			
Net interest and dividend payments to other countries	279.8	261.8	- 18.0
Payments for merchandise imports	611.1	418.7	-192.4
On account of net long-term capital exports	-	49.1	+ 49.1
Total Outgo	890.9	729.6	-161.3
Excess of outgo over income	105.6	83.9	- 21.7

For details of Table V, see Table II and the Table in the Appendix.

1928 the net long-term capital movement was outward. The new low price of the pound sterling in Montreal accentuated the effects of world depression on the value of certain Canadian exports; but the higher price of gold standard currencies, especially the United States dollar, tended on the contrary to raise the value of others. As in 1931 so in 1932, imports showed a much greater decline in value than did exports. The imposition of exchange dumping duties late in 1931, high tariffs, the fall in the national income, and the high price of New York funds brought a sharp curtailment of imports. From these movements a favourable balance of merchandise trade resulted for the first time since 1928 (Table II). Despite a rise in the net borrowings of the Dominion government abroad to $56.2 million in 1932 (Table III), total sales of new securities abroad were at their low point for the depression and fell slightly short of meeting the maturities abroad, though these were at an unusually low level also.(14)

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(14) A more detailed analysis of the balance of payments information available does not throw much additional light on the behaviour of the individual items of the balance in 1932. The restrictive effect of deepening depression and falling prices is everywhere evident. That the balance of payments deficit shown in Table V is smaller than it was in 1931 must be attributed in part at least to the exchange rate movements of the year. But it is quite impossible to distinguish in the movements of the net balance of particular items the effects of exchange rate movements from those of other factors. Nor does this information throw much light on the exact timing or the extent of the depreciation of the dollar in terms of New York funds. That the depreciation of the pound sterling was mainly responsible for the fall of the Canadian dollar in New York was widely assumed at the time. That our difficulties in meeting United States obligations were increased by this event is obvious. But the balance of payments affords slight support for the view that a heavy flight of capital from Canada when the British pound fell was the main cause of the Canadian dollar's decline. Deterioration in our balance of payments position began early in 1931, as has been noted above, and the Canadian dollar would probably have declined somewhat in 1931 or early in 1932 even had the pound remained on gold.

(c) At the Ottawa Conference opinion was against deliberate currency depreciation but the Conference recommended as an alternative that Empire countries endeavour to raise prices by promoting "easy money". Thereafter, the Dominion government took practical steps to implement this recommendation as appropriate occasions arose. In November 1932, the cash reserves of the banks were increased by Dominion action.

The British Empire Economic Conference held in Ottawa in July and August 1932 gave most of its time to trade and tariff matters. The deliberations of its monetary and financial questions committee are nevertheless significant because they mark an important change in the monetary opinions of the Dominion government. The Prime Minister confessed, at the autumn session of Parliament which followed the Conference, that he had discovered there that not even the whole British Empire together was very important in determining the world monetary system whilst countries such as the United States remained outside the deliberations. In assenting to the Conference report he concurred in the view that intra-imperial exchange rate stabilization was not then possible and that a considerable rise in the price of the chief export commodities of the Dominions would have to take place before it was to be considered. This position is in striking contrast with the view hitherto professed by the Prime Minister especially in his comments on Britain's departure from the gold standard. Conference discussions had made it clear, however, that it was neither possible nor desirable to stabilize exchange rates under any and all circumstances. The Dominions, particularly New Zealand, came to the Conference determined to stress the fact that they could not maintain their present rates of exchange with the pound sterling unless there was a very early rise in the sterling prices of their chief export commodities. New Zealand was trying hard to maintain her exchange at a discount of 10% in terms of sterling. Australia's depreciation to 20% below sterling was giving her butter producers for instance, a considerable advantage over those of New Zealand in the British market. Unless this situation was rectified by a considerable advance in sterling prices it would be impossible to

prevent a further decline in the value of the New Zealand pound.[15] Since opinion at the Conference was still against deliberate currency depreciation as a solution, nothing was left but to approve of an attempt to raise prices by governmental action. The Conference therefore, considered "what action can be taken by the nations of the Commonwealth to help towards raising prices".

"As regards monetary factors, the Conference recognizes that the central position of the United Kingdom, not only among the nations of the Commonwealth but in world trade and finance, makes the United Kingdom a main factor in anything that can be done. The Conference, therefore, welcomes the following statement made on behalf of the United Kingdom by the Chancellor of the Exchequer:

> 'His Majesty's Government desire to see wholesale sterling prices rise. The best condition for this would be a rise in gold prices and absence of a rise in gold prices inevitably imposes limitations on what can be done for sterling. A rise in prices cannot be effected by monetary action alone, since various other factors which have combined to bring about the present depression must also be modified or removed before a remedy is assured. His Majesty's Government nevertheless recognize that an ample supply of short-term money at low rates may have a valuable influence, and they are confident that the efforts which have successfully brought about the present favourable monetary conditions can and will, unless unforeseen difficulties arise, be continued.'

The Conference recommends the other countries of the Commonwealth represented here to act in conformity with the line of policy as set out in the statement of the Chancellor of the Exchequer, so far as lies within their power."[16]

The extremely cautious character of the Conference recommendation is emphasized by the further warning that the "low interest rates and abundance of short-term money" desired were not to be achieved "by the inflationary creation of additional

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(15) "The Monetary Problem at Ottawa" The Economist (London) August 6, 1932, p. 261.

(16) Imperial Economic Conference, 1932; Report of the Conference. (Ottawa, King's Printer, 1932) pp. 37ff.

means of payment to finance public expenditure, but by an orderly monetary policy safeguarded, if the necessity should arise, by such steps as will restrain and circumscribe the scope of violent speculative movements in commodities or securities".(17) The doubts of the government of the United Kingdom about the possibility of raising sterling wholesale prices in the face of the continued decline of gold prices and their scepticism about the inflationary financing of public expenditure especially that on public works are clearly reflected in the conclusions of the Conference on monetary policy. By its assent to these conclusions the Dominion government gave the first hint of any departure in its thinking from the strictest canons of monetary orthodoxy.

That financial circles in Canada looked for no significant change in the policy of the government as a result of the Conference, is indicated by the surprise with which its action to increase the monetary base taken in November 1932 was greeted. The issue of Dominion notes under the Finance Act was increased by $35 million through the compulsory discount by the banks of that amount of Dominion two-year treasury bills which they had been forced to buy from the government. Both the government bond market and the exchange market reacted adversely apparently under the impression that the government had succumbed to the pressure of those within Canada who urged inflation, despite assurances from Ottawa that no change in monetary policy was contemplated.(18)

In the debate on the government's motion for the approval of the Ottawa agreements made at the autumn session of Parliament, 1932, an independent member moved an amendment to approve the agreements provided that the Canadian dollar be brought to its former par rate with the pound sterling. He argued that such a proposal was no longer an idle dream; the experience of Australia and Argentina with depreciation of their currencies proved the

(17) Ibid., p. 38.
(18) The Economist (London) November 12, 1932, p. 877.

suitability of this policy to a country such as Canada.

Important critical comments on the views of the advocates of inflation and depreciation were made in the House a few days later by a Liberal member. He noted the great danger that such action by Canada would merely provoke her competitors in world wheat markets to carry their own currencies to a yet lower value. There was thus some likelihood that isolated action by particular countries would precipitate a "race for the bottom", tending to world unsettlement and a further fall in prices rather than the rise of prices desired. Britain's abandonment of gold had in his view accelerated considerably the world-wide fall in prices.

Late in November depreciation was brought once more to the attention of the House. An independent member moved that the Canadian dollar be depreciated, not merely to the level of the pound, but to that of our chief competitors in British wheat markets, i.e., to the level of the currencies of Australia and Argentina. During the discussion, the government's recent forced sale of $35 million two-year notes to the banks and their obligatory rediscount for Dominion notes was brought up in the House for the first time. This action was said to be definitely inflationary by a U. F. A. member and not in accord with the "sound" money professions of the government. He predicted however, that it would fail of its intended price-raising effect as under present depressing circumstances the banks would make no use of the additional reserves thus obtained. Before they could find borrowers for the new money the business sentiment of the community must be improved. The most effective method of bringing this about was to depreciate the Canadian dollar. The resultant rise in the money income of the major export regions would immediately be felt throughout the country as a stimulating influence. By the use of this additional income domestic business would be improved and the approach to a balanced budget in the Dominion and the provinces accelerated. Nothing would more surely raise the national credit than such a

step. Only so could the country be released from the paralyzing grip of the deflationary influences which seemed to be increasing their hold over the whole continent.

The effect of the Dominion government's action of November 1932 was to increase the volume of commercial bank cash reserves by $35 million. The importance of such an increase may be seen clearly on Chart I. The steady decline of "Chartered Bank Cash less Cash obtained under Finance Act Advances" which had begun with the balance of payments deficit of 1931 had continued in 1932. In that year there was an export of monetary gold by the banks amounting to $12.5 million; at the same time the net foreign assets of the banks fell $37.7 million (Table II, items 15, 16).

That this deterioration in the cash position of the banks fell more heavily on some banks than on others is indicated by the resumption of borrowing under the Finance Act in late 1931. Some of the Dominion notes so obtained went through the clearing house to swell the cash reserves of banks which did not borrow. Others were retained by the borrowing banks to improve their cash positions so that pressure on their customers to repay loans might be mitigated. Total Finance Act borrowings in January 1932 averaged $30.9 million; by May the average had fallen to $13.8 million; in July it had risen once more to $28.8 million, but this figure was cut to $13.0 million by the month of September. Clearly the borrowing banks were making strenuous efforts to keep the borrowings as low as possible. United action by the banks to increase the volume of cash reserves by borrowing under the Finance Act was not to be expected. Bankers as a whole were unbelievers so far as the virtues of an "easy money" policy were concerned. With such an opinion general, borrowing by any one bank in an effort to relieve the situation was sure to be met by the suspicion that its own position was not quite sound. It was in these circumstances that the Dominion government intervened with its first striking action to promote the Empire policy of monetary expansion agreed on at the

Ottawa Conference. Deflationary pressure exercised by the banks in the interests of their reserve positions had slight excuse thereafter.

(d) During 1932 and early 1933 the government accepted the mid-way position of the Canadian dollar between the United States dollar and sterling as a "not unsatisfactory compromise" between the various Canadian interests concerned. It continued its efforts to promote easy money and lower interest rates by putting through conversion loans and taking steps to set up a central bank by means of which such policies could be safely carried out.

When the House of Commons met in February 1933 the banking crisis in the United States was moving to its climax and the depreciation of the United States and the Canadian currencies was yet to take place. An extended debate on banking reform took place on the government bill to extend the charters of the commercial banks for another decade. A conspicuous feature of the debate was the somewhat heretical speech of a leading member of the official opposition. He pronounced himself sceptical of "sound money";

> "... I am sure if my right honourable friend (the Prime Minister) would give up his attachment to the fallacy and fiction of 'sound money' and deal immediately and fearlessly with the tremendous problem of meeting our debt and interest obligations, he would have the grateful regard of the Canadian people." (19)

The government did not accept the suggestion to abandon its monetary views. In his Budget speech on March 21st, 1933, the Minister of Finance reaffirmed the position of the government in the midst of these uncertainties and hesitations of opinion;

> "... Much has been heard in recent months about inflation. Some of the advantages claimed for inflation may seem alluring to industries harassed by falling prices and declining turnover. But let the sponsors of inflation never forget that apart from the other difficulties and dangers involved in their program, one inevitable result would be a flight from our dollar, a withdrawal on a large scale of the capital invested by foreigners in this country in the form of securities and bank deposits. There are also to be considered internal reactions to any steps which might impair confidence in a country's currency. Against policies which might lead to such dangers, this government has resolutely set its face." (20)

(19) House of Commons Debates, Session 1932-1933, Vol.II, p.2055.
(20) House of Commons Debates, Session 1932-1933, Vol.III, p.3208.

He thought the position of the Canadiam dollar "half-way between the United States dollar and the English pound" might be "working out a not unsatisfactory compromise between those of our national interests which would be benefited by close and stable relations with sterling and those on the other hand which would be seriously harmed by a heavy and fluctuating discount in terms of New York".(21) As an alternative to "unsound" methods for dealing with the weight of the national debt, he announced that the government would follow the accepted path of conversion loans and would make every effort to get interest rates down. The expansion of the monetary supply made possible by the forced Finance Act advances of November 1932 had already prepared the way. Realizing the dangers of even the "easy money" policy agreed on at the Ottawa Conference and the necessity of better instruments of banking control, the Minister announced the government's intention to appoint a Royal Commission to investigate the advisability of the setting up of a central bank of Canada.

In the course of the same debate further indication of the serious consideration now being given the monetary question by members of the House was afforded when two prominent members of the official opposition asked the Minister why it was thought to be inflationary, and thus unwise, to finance a public works programme by an issue of more Dominion notes without additional gold backing, but was not thought to be inflationary to finance such public works by borrowing from the banks on security of treasury bills. So unsatisfactory and confused was the debate on this point that the Prime Minister intervened with a long speech on the Canadian currency situation, the Finance Act and the pros and cons of a central bank. At the end of his speech he returned to the specific question of gold backing for a country's currency. Gold, he said, was the "universal measuring yardstick" by which values were measured. A currency without backing in gold would be without that value.

(21) Ibid.

"... This is the experience of the commercial world at any rate - that if within a country you have no such common standard, no such universal measuring yardstick, you are bound to have a greatly depreciated currency, depreciated from the value of the standard and depreciated in terms of the currency of your creditor if you have to pay him in accordance with the terms of the standard. That looks so reasonable as not to require much argument..."

As to why the national credit should be injured by the absence of gold cover behind an issue of currency for purely domestic use such as the financing of public works, the Prime Minister continued;

"... I cannot answer that; I do not know anybody who can. But we know what the experience of mankind has been when you use a currency in your own country that has no convertibility into any standard that is useful in discharging your obligations in other countries. Your currency can then only be used in your own country and what it is worth in any other country is a matter of conjecture and guess..."(22)

The final debate of the session on monetary matters occurred in May. Meanwhile Mr. Roosevelt had taken office in the United States and had acted vigorously to end the banking crisis. In April the United States had astonished the world by suspending the gold standard while the country's stock of gold was still very large. Independent members noted with satisfaction this abandonment of gold and remarked that the President had "come out frankly for a policy of controlled inflation". They urged that Canada now abandon "sound money" and imitate United States action.

The suggestion that the United States has deliberately departed from the canons of "sound finance" was vigorously challenged by the Prime Minister. "Some people fancy", he said, "that this was a deliberate act... That step was taken because of cold necessity and nothing else." Noting that the delegates of France and Great Britain coming to confer about monetary matters with the President were astonished at such action whilst they were still on the high seas, he reports that, "When the facts were disclosed to them they understood that there was nothing else to be done for the moment".(23)

(22) House of Commons Debates,Session 1932-1933,Vol.III,pp.3420f.
(23) House of Commons Debates,Session 1932-1933,Vol.IV,p.4448.

Chapter III The Devaluation of the United States dollar and the Restoration of the Former Relationships between sterling, the United States dollar and the Canadian dollar.

(a) The depreciation of the United States dollar in 1933 was accompanied by a further depreciation of the Canadian dollar and sterling rose slightly above par in Montreal. This restoration of former relationships, which came about without any action on the part of the Dominion put an end to the agitation for the depreciation of the Canadian dollar.

It is an ironical circumstance that the fall in the value of the Canadian dollar in New York in 1931 brought few of the benefits of depreciation to the western farmer for whose relief depreciation of the currency had been most persistently advocated; the pound sterling in terms of which our wheat is mainly sold, depreciated yet furtherthan the Canadian dollar. Wheat exporters suffered from the <u>appreciation</u> of the dollar in terms of the currency with which they were most concerned. They did not suffer as much as did exporters in the United States who sold in sterling, for in Montreal sterling averaged almost $4.00 as against $3.50 in New York during 1932. So the depreciation of our dollar in terms of the United States dollar and gold currencies, mitigated somewhat the loss of the wheat exporter from the fall of sterling. To exporters who still found markets for their products in the United States and other gold standard countries, the rise of the price of New York funds brought positive gain.

The serious depreciation of the pound sterling in terms of gold in late 1931 and 1932 (Chart II)-a possibility which few had contemplated - demonstrated forcibly to Canadians the peculiar significance of the United States dollar-pound sterling rate of exchange to the economic prosperity of Canada and the relative incomes of its several regions. Some regions gained from the premium which appeared on New York funds in Montreal (Table I) while other regions lost heavily from the fall in sterling. The exchange rate

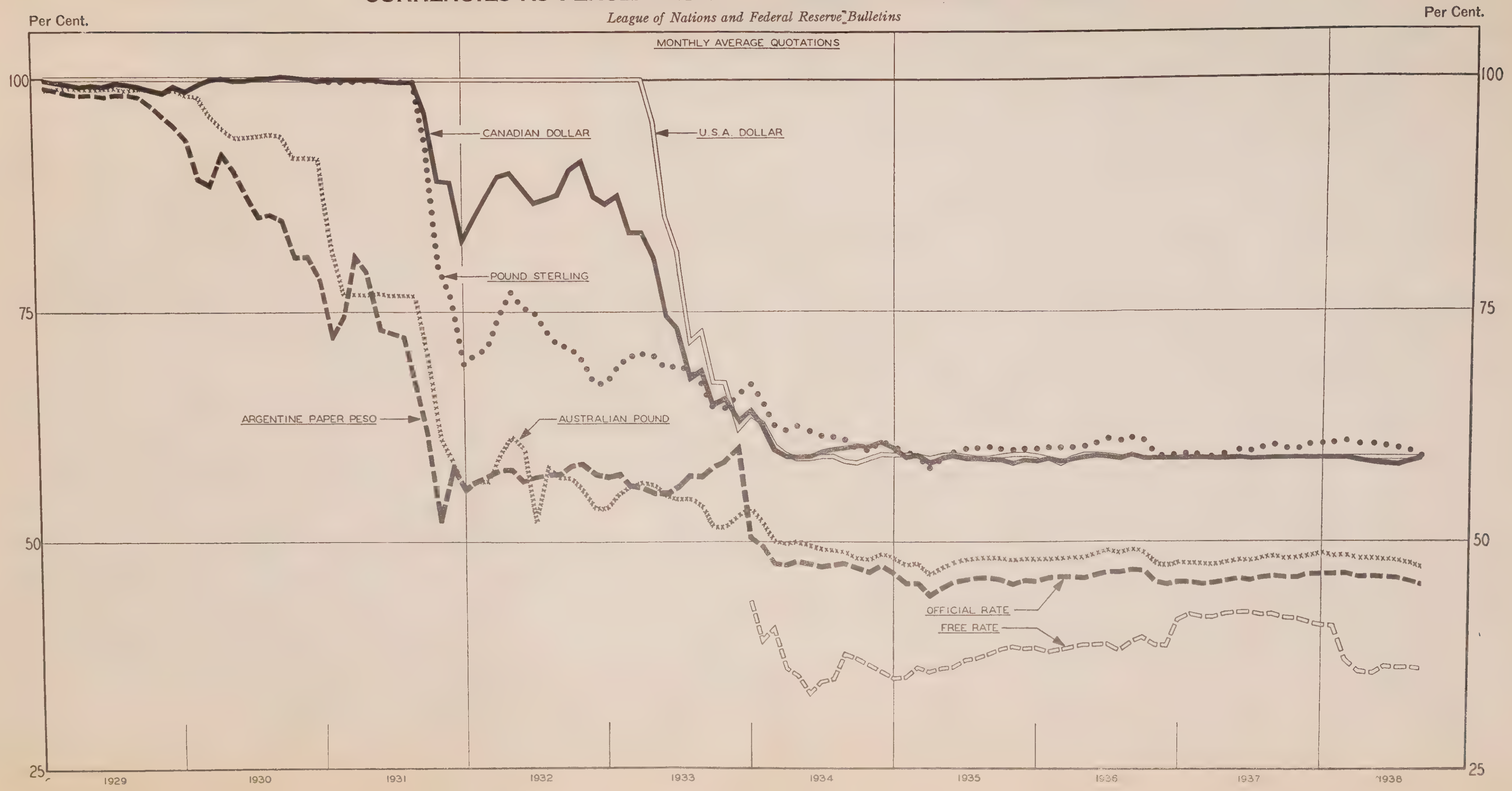
movements of the year 1933 made the demonstration yet more impressive. The depreciation of the United States dollar during 1933 to a point in terms of gold below that to which the pound had already fallen brought the pound back to par and above in New York (Chart II). At the same time the Canadian dollar again fell in terms of gold stopping at a degree of depreciation roughly equal to that of the pound and the United States dollar (Chart II). As a result of the fall of the three currencies to about the same degree in terms of gold, the former relationships between them were restored. In Montreal the United States dollar fell to par and the pound sterling rose to par and above (Table I). These dramatic exchange rate movements did much to restore the position undermined by the events of the years 1931-1932. Once more pounds sterling obtained from the export of Canadian goods and services had their old weight in paying our debts in New York and yielded in Canada more dollars to the export producer.

Most people accepted this restoration of former relationships between these currencies as a natural return to the pre-1931 situation requiring no particular explanation. One may see from Chart II that the depreciation of the United States dollar would, <u>apart from the depreciation of the Canadian dollar at the same time,</u> merely have reduced the United States dollar to a low price in Montreal along with sterling. In other words, two distinct currency changes were necessary to restore the former relationships, the fall of the United States dollar to about the same degree of depreciation in terms of gold as the pound sterling and a second depreciation of the Canadian dollar in terms of gold greater than that which took place in late 1931. The policies of the administration at Washington perhaps explain the depreciation of the United States dollar; but why did the Canadian dollar resume its decline at the same time? No positive measures were taken in Canada to further such an end and Canada's balance of international payments actually improved in 1933 over

CHART II

CURRENCIES AS PERCENTAGE OF FORMER GOLD PARITIES: 1929-38

League of Nations and Federal Reserve Bulletins



1932 (Table VI). Moreover this movement of the Canadian dollar was against the trend of the major currencies of the world as the United States dollar fell. Most currencies rose in New York roughly by the amount of the depreciation of the United States dollar. The rise of the pound sterling in New York, for instance, from an average value for December 1932 of $3.28 to $5.12 in December 1933 was a rise of 56%. But during the same period the disappearance by the end of the year of the premium on New York funds, which had stood at an average of 20% in March 1933, was a rise in the value of the Canadian dollar in New York of but 17%. Thus while other currencies rose rapidly in New York the Canadian dollar rose but little; in terms of other currencies it fell.

This eccentric behaviour of the Canadian dollar evoked little comment at the time; few people seem to have realized that anything peculiar was happening. To most Canadians, and perhaps also to many in the United States, the restoration of par between the two dollars seemed the most natural of events. It had always happened in the past and the presumption seemed to be that it would always so happen in the future. Indeed some commentators offer this feeling as perhaps the main force tending to keep the two currencies together.(24)

That the balance of international payments for 1933 should throw much light on the reasons for this

(24) When the Canadian dollar is low in New York, as in 1932, funds such as branch plant profits which would normally flow back to the United States steadily are allowed to accumulate in Canada pending a return of the dollar to par. The fact that the Canadian dollar rarely rises above the American dollar for long is said to be due to the fact that such a relationship is widely believed to be unnatural and not likely to last. Hence funds are hurriedly moved to the United States while there is a profit on exchange; this brings the Canadian dollar rapidly back to par. The month-by-month details of the movements of funds necessary to check the validity of such an argument are not available.

depreciation of the Canadian dollar is hardly to be expected. It states the net results of international dealings of Canadians in a year which saw not only violent exchange rate movements but the transformation of business conditions in the United States from the culmination of depression in the banking crisis of the early part of the year to the first spurt of business revival in the autumn. At the same time steady progress to recovery was made in the sterling area and depression grew worse in gold bloc countries. The separation of the effects of these many forces on the various items of the balance of payments is almost impossible.

Table VI

Canada's Balance of International Payments (a)
1932 & 1933
(In millions of dollars)

	1932	1933	Change
Income			
From merchandise exports including non-monetary gold	553.0	611.7	+58.7
From tourists and other current items net	92.7	9.9	-82.8
Total income	645.7	621.6	-24.1
Outgo			
Net interest and dividend payments to other countries	261.8	224.3	-37.5
Payments for merchandise imports	418.7	385.7	-33.0
Net long term capital exports	49.1	50.4	+ 1.3
Total outgo	729.6	660.4	-69.2
Excess of outgo	83.9	38.8	-45.1

(a) For details see Table II and the table in the Appendix.

In general the changes were smaller than in earlier years and improved the position on balance, the excess of outward payments being reduced by $45.1 million.

As in 1932, so in 1933, the direct influence of exchange rate movements is most clearly to be distinguished in the capital account. Almost all of the $51.0 million of outstanding securities sold on balance during the year (Table II, item 11) went to other countries than the United States. Pounds now went further in Canada in the purchase of securities (or anything else for that matter) and the United States dollar went less far than in 1932. On the other hand the net outflow of other funds from Canada of $75.3 million (item 12) was entirely to the United States where the value of funds held in Canada had risen and profits made on investments in Canada might be withdrawn without exchange loss. The desire of many corporations with branches in Canada for liquid funds in the United States during the banking crisis of early 1933 led to considerable withdrawals of branch plants and other balances even while an exchange loss had to be taken. The net effect of these two opposed results of the exchange rate readjustments of 1933 was an export of capital of $24.3 million (Table II, item 11 and item 12). The increase in our capital export to meet the excess of maturities over new issues (item 10) would have been greater than it was but for the rise of the pound. This rise made it possible for the Dominion government to borrow in the London market where conditions were much more favourable to our securities than in New York. An excess of maturities in the United States over new issues amounting to $68.0 million was reduced to the $26.1 million shown in Table II, item 10, by the use of an excess of new issues in London over maturities there amounting to $41.9 million. On the whole it is probable also that the foreign exchange to be purchased by Canada to service debts abroad would have been greater than it was but for the

movements of the pound and the United States dollar during 1933.

// Evidence of the effect of these exchange rate movements is more difficult to discover in the current account. The slight rise in our exports to the United States in spite of the fall in the premium on New York funds reflects the economic recovery in that country which was to become of increasing importance to our exporters, as the months passed, whether they sold in the United States or other countries. Recovery in Britain and the Ottawa agreements must be held to account for some part of the rise of $32.0 million in our exports to countries other than the United States. But the rise in the value of the pound in Montreal must have been an important cause of that increase also. Despite the improvement of the purchasing power of the Canadian dollar in New York, however, imports of American goods fell by $42.3 million or 17% of their value in 1932; and imports from other countries grew somewhat in spite of the fall in the purchasing power of our dollar in sterling bloc countries. The rise in the price of gold in the United States more than offset the loss to Canadian producers from the disappearance of the premium on New York funds. The fall in the national income of the United States during late 1932 and early 1933 was doubtless chiefly responsible for the great loss of tourist income amounting to almost $100 million (Appendix Table, Col.VI), though the disappearance of a "cheap" Canadian dollar may have played a part.

The current account balance in 1933 showed a small credit for the first time since 1928. But it was so small that most of the net long-term capital export of $50.4 million (Table II, item 13) had to be met in other ways. A further net sale by the commercial banks of almost $24 million of their foreign balances supplied most of the exchange necessary (item 15). There was also a very small export of monetary gold (item 16). The rise in the value of the pound permitted the Dominion government to borrow in London. Provincial governments were not in a position

to borrow abroad. The Dominion government borrowed $64.1 million in excess of the maturities of its own securities in other countries (Table III). Continued high tariffs played their part, doubtless, in the shrinkage of imports to the low point for the depression.

The rise of the pound sterling to a premium in Montreal put an end to the agitation for the depreciation of the Canadian dollar. Rarely had anyone suggested that the dollar should be depreciated more than the pound sterling and that suggestion had obtained no hearing even in the worst months of the depression. Support for the deliberate depreciatiom of the dollar to the level of sterling had grown considerably however. It is not surprising therefore that the session of Parliament which opened in January 1934 heard little of the old controversies. In the Budget speech, the Minister of Finance, noting the change with satisfaction, claimed that the government's action in prohibiting the export of gold in October 1931 had left the dollar free to respond to these favourable changes at once, and announced that the exchange rate would be left free to move in response to market forces till the relationship between the pound sterling and the United States dollar should be clarified.

(b) At the World Economic Conference in 1933, the Empire countries reaffirmed the policy laid down at Ottawa with respect to "easy money" and price raising. To this end the Dominion hastened the organization of the Bank of Canada and in 1934, when it felt it could do so without loss of credit, expanded the cash reserves of the banks by increasing the Dominion note issue by $52.5 million.

The World Economic Conference of June 1933 was called to secure the removal of obstacles to international trade of which the chief were high tariffs and exchange rate instability. It broke up without dealing effectively with either topic because of the same clash of views on the exchange rate stabilization problem that occurred at the Ottawa Conference.

As South Africa had urged, at Ottawa, the restoration of the gold standard as the best method of securing exchange rate stability, so the gold bloc countries, led by France, now demanded similar action. When it became clear that restoration of the gold standard was thought premature by Great Britain and the United States, the gold bloc countries refused to consider giving up the weapon of high tariffs for use against countries which would not surrender the right to manipulate the foreign exchange value of their currencies at will.

That Great Britain was averse to any attempt to restore an international currency standard until the obstacles to its successful operation had been removed, was well known. But the surprise of the Conference was the refusal of the United States to enter any agreement for the stabilization of exchange rates. Washington had now shifted to the view that economic recovery could be secured most rapidly by each country setting its own house in order. "The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other countries."(25) In particular, commodity prices had to be raised. In order that this and related measures might be carried through promptly and effectively the United States proposed to retain its freedom of action.

After the World Economic Conference had adjourned a declaration on British Empire monetary policy was issued by the delegates from Commonwealth countries. The policy laid down at Ottawa was reaffirmed. Despite the continued decline of gold prices, a rise in the sterling prices of primary products of 20% was noted with satisfaction. Commonwealth governments were urged to persist in their price-raising policies "by all the means in their power whether monetary or economic within the

(25) From the text of Mr. Roosevelt's Message of July 3rd, 1933, as quoted in The Economist (London) July 8, 1933, p.64.

limits of sound finance". Prices were to be raised to such a level as would "restore the normal activity of industry and employment, ensure an economic return to the producer of primary products and harmonize the burden of debts and fixed charges with economic capacity". The Canadian delegate signed this declaration.(26)

The government took no conspicuous measure of monetary expansion following the reaffirmation of the 'price-raising by easy money' policy by the Commonwealth delegates to the World Economic Conference in August 1933. As an alternative it hastened the organization of a central bank by which an expansionist monetary policy might be more effectively carried out. On the basis of the favourable report of a majority of the Macmillan Royal Commission in September 1933, legislation for the establishment of the Bank of Canada was introduced and passed at the 1934 session.

Since the organization of the Bank of Canada would take some time the government decided late in the 1934 session that a further measure of monetary expansion would be necessary in the interim. The Dominion Treasury was in need of funds to finance a proposed public works programme and there was need also to provide ample reserves to enable the commercial banks to finance the hoped-for expansion in the volume of business. This time the volume of Dominion notes was not increased through the use of the facilities of the Finance Act. Legislation was passed amending the Dominion Notes Act to permit an expansion of $52.5 million in the Dominion note issue without additional gold cover. In introducing the legislation the Prime Minister moved at once to counteract the impression that he had altered his views on the necessity of gold cover for the currency so emphatically set out at previous sessions. Replying to the query of a member of the opposition as to why a measure of controlled inflation of this sort which the government had roundly condemned for the past three

(26) The declaration is printed in The Economist (London) August 5, 1933, p.271.

years should so suddenly have become proper, he said in effect: "World monetary authorities have altered the rules of the gold standard game". Hitherto the customary minimum gold coverage held by central banks had averaged 35% to 40%. Actual reserves were of course much higher. At the World Economic Conference of 1933, it had been agreed by the governmental and central banking authorities present that it would be expedient if the recognized minimum should come to be 25%. While no suggestion was made that actual reserves should be reduced, the world-wide agreement that a minimum of 25% rather than 40% was adequate, would tend to lessen the scramble for gold which had been going on amongst central banks. The government was thus acting, said the Prime Minister,"...in accordance with the prudent recommendations of the World Conference. In fact we are providing a margin of reserve in excess of that deemed sufficient by the conference. I offer this comment in advance to dispel any possible doubt of those who may regard the proposed action as unorthodox or as a departure from the accepted canons of sound monetary practice".(27) Since this change had been agreed upon internationally Canada could make the change in the gold reserve held behind Dominion notes without loss of credit in the eyes of the world.

In reply to the query as to why he had waited so long before making this additional issue, the Prime Minister said, "When I tried it with $35,000,000 what was the result? We issued $35,000,000 of money under the provisions of the Finance Act and what happened? Exchange dropped eight per cent. That demonstrated that we were not ready to do this, that confidence had not been created and that the foreign balances of this country were not sufficient to sustain our position. Confidence has returned, and with our foreign balances as I have indicated, this country finds itself in a position where the bill as brought down the other day in

(27) House of Commons Debates (Canada) Session 1934, Vol.IV,p.4085.

this house was received with approval in the monetary centres of the world, whereas my little effort to deal with the situation a couple of years ago met with a fall of exchange of eight per cent.".(28)

The Dominion government took no further action of importance with respect to monetary policy before the establishment of the Bank of Canada.

(c) The improvement in world business conditions and the rise in the price of sterling after 1933 greatly eased Canada's balance of payments position in 1934.

Canada's balance of international payments in 1934 clearly indicates the stimulus of general business recovery abroad and the higher pound sterling in Montreal (Table VII). Both total income and outgo increased, income increase exceeding that of outgo enough to reduce the balance of payments deficit by $16.7 million. With the rise in the world gold price of late 1933 Canada's non-monetary gold exports increased by $30.2 million over 1933. Other merchandise exports and tourist income also rose. Expansion of imports is inevitable also in a period of business recovery. The increase in our capital exports reflects in part transactions consequent

(28) Ibid., p.4273.

TABLE VII

Canada's Balance of International Payments
1933 & 1934 (a)
(In millions of dollars)

	1933	1934	Change
Income			
From merchandise exports including non-monetary gold	611.7	762.5	+150.8
From tourists and other current items net	9.9	28.7	+ 18.8
Total income	621.6	791.2	+169.6
Outgo			
Net interest and dividend payments to other countries	224.3	211.6	- 12.7
Payments for merchandise imports	385.7	504.8	+119.1
Net long-term capital exports	50.4	96.9	+ 46.5
Total Outgo	660.4	813.3	+152.9
Excess of Outgo	38.8	22.1	- 16.7

(a) For details see Table II and the table in the Appendix.

upon the readjustment in the rates of exchange.[29] Net Dominion borrowings abroad were small, but maturities of all Canadian securities abroad exceeded the new issues by \$58.0 million thus contributing substantially to the increased export of capital.

During 1934 the cash reserves of the commercial banks were greatly increased (Chart I). The banks imported \$18.9 million of monetary gold but the increase is mainly due to an expansion of the Dominion note issue by \$52.5 million which began in mid-1934. The authority for this increased issue was obtained by the amendment of the Dominion Notes Act discussed above (p.44). This action of the Dominion government

(29) A revived international trade in previously issued securities brought net purchases from the United States of \$68.3 million and net sales to all other countries of \$77.2 million. The latter at least was clearly influenced by the recovery of the purchasing power of the pound sterling in Canadian security markets. The net outflow of other funds from Canada was less than for 1933 (Table II, item 12).

was the second conspicuous step in implementing the easy money policy agreed on at the Ottawa Conference of 1932 and reaffirmed at the World Economic Conference of 1933. Renewed business activity and a great revival of confidence in the future of business made such an issue possible and necessary. Adequate cash to finance business recovery without putting any strain on the bond market was imperative, pending the establishment of the Bank of Canada.

The behaviour of the Canadian dollar in 1935 and later years is hardly relevant to the controversy over monetary policy during the depression and will not be discussed here. The record of the years 1930-34 has been surveyed in an attempt to explain the main reasons for our exchange rate variations and the manner in which action by the Dominion government influenced the rate.

Chapter IV Currency Depreciation in Australia and Argentina was not deliberate.

(a) Australia's balance of payments position was more vulnerable than the Canadian because of the high net capital imports which fell off abruptly in 1928-29. Strenuous efforts were made to maintain the exchange and depreciation was only accepted when these efforts had failed.

The claim was made early in the depression and has been repeated, that Australia and Argentina provided an example of deliberate currency depreciation which Canada might well have followed. But this argument ignores the fact that depreciation was not undertaken deliberately by either of these countries. It is the purpose of this chapter to substantiate this view.

Australia's economic situation at the onset of depression was more typical of debtor countries than was that of Canada. Our balance of payments in 1928 suffered strain largely because of an undue inflation of the money income of the country permitted by the Finance Act borrowing and the consequent increase in the demand for imports which worsened our balance of trade by over $250 million in 1929 in comparison with 1928. In 1929 the fall in the price of agricultural exports played an important part as well. In Australia the inflation of the national income which produced an excess of imports in most of the post-war years arose from a heavy net import of long-term capital. In Canada the import of capital, while substantial, was relatively much smaller and its effect upon the national income was lessened by that outflow of funds for the purchase of securities abroad which made us a net capital exporter in the late 1920's. Thus, when depression began, Australia had to make up a deficiency of foreign exchange arising from the abrupt cessation of the inflow of foreign long-term capital and the drastic fall in the prices of her chief exports. Because of her heavy interest payments and unfavourable balance of trade the

TABLE VIII

AUSTRALIA'S BALANCE OF INTERNATIONAL PAYMENTS 1928-29 - 1935-36 (a)

(In Thousands of Pounds Sterling)

Fiscal Years (ending June 30)	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Current Account -								
1. Merchandise Exports (excluding gold)	+ 138,107	+ 96,224	+ 77,698	+ 77,110	+ 79,781	+ 91,946	+ 83,432	+ 100,043
2. Merchandise Imports (" ")	- 147,421	- 136,576	- 63,013	- 46,108	- 58,798	- 61,332	- 74,703	- 86,336
3. Merchandise Balance of Trade	- 9,314	- 40,352	+ 14,685	+ 31,002	+ 20,983	+ 30,614	+ 8,729	+ 13,707
4. Gold Exports (non-monetary)	+ 1,872	+ 1,874	+ 2,157	+ 3,609	+ 4,606	+ 5,671	+ 5,891	+ 7,338
5. Merchandise and Gold Trade Balance	- 7,442	- 38,478	+ 16,842	+ 34,611	+ 25,589	+ 36,285	+ 14,620	+ 21,045
6. Other services Balance	+ 1,430	+ 2,791	+ 3,737	+ 2,611	+ 1,112	- 370	+ 764	+ 1,118
7. Balance of Merchandise, Gold and Other services	- 6,012	- 35,687	+ 20,579	+ 37,222	+ 26,701	+ 35,915	+ 15,384	+ 22,163
8. Balance of Interest and Dividends (Receipts and Payments)	- 35,058	- 37,081	- 37,311	- 29,946	- 29,892	- 29,247	- 28,256	- 28,733
9. Balance of all current items	- 41,070	- 72,768	- 16,732	+ 7,276	- 3,191	+ 6,668	- 12,872	- 6,570
Long Term Capital Account -								
10. Changes in long term securities	+ 12,576	+ 2,656	- 2,988	- 2,079	- 2,056	- 2,646	- 2,403	- 1,498
11. Changes in short term securities	+ 7,915	+ 28,063	+ 5,560	- 1,936	- 3,703	- 1,067	+ 84	- 2,314
12. Australian holding of New Zealand securities	- 313	- 897	- 232	+ 1,219	-	-	+ 578	+ 150
13. Long term private capital overseas	+ 2,282	+ 2,614	+ 768	+ 71	+ 103	- 1,598	+ 4,288	+ 2,503
14. Other Australian investment overseas	- 1,260	- 14,065	- 8,820	- 3,483	- 16,461	+ 1,250	+ 3,449	+ 2,465
15. Total Long Term investment	+ 21,200	+ 18,371	- 5,712	- 6,208	- 22,117	- 865	+ 5,996	+ 1,306
16. Net Dr. or Cr. on Current and Capital Account	- 19,870	- 54,397	- 22,444	+ 1,068	- 25,308	+ 5,803	- 6,876	- 5,264
Balancing Items -								
17. Bank balances	+ 6,887	+ 19,818	+ 1,600	- 7,481	+ 4,607	- 21,676	+ 16,958	- 2,892
18. Other temporary balances	+ 2,393	+ 1,523	+ 6,390	+ 558	- 1,673	+ 1,035	- 3,629	- 649
19. Gold exports (monetary)	+ 767	+ 24,704	+ 9,745	+ 5,273	+ 12,302	+ 978	+ 522	+ 1,279
20. Total Balancing Items (17+18+19)	+ 10,047	+ 46,045	+ 17,735	- 1,650	+ 15,236	- 19,663	+ 13,851	- 2,262
21. Residual Item	+ 9,823	+ 8,352	+ 4,709	+ 582	+ 10,072	+ 13,860	- 6,975	+ 7,526

(a) League of Nations, Balances of Payments 1936. (Geneva, 1937) pp. 58ff. The items of the original table have been combined into groups as comparable as possible with those of Table II.

current transactions in Australia's balance of payments had resulted in a considerable net deficit for years. Canada's only turned against her in 1929. The adjustments to be effected in Australia were thus considerably greater and the probability of serious currency depreciation apparent.

In such a situation the Australian government might have been pardoned had it abandoned the parity of the Australian pound with sterling and deliberately promoted depreciation as a powerful weapon in effecting the adjustments demanded. But understanding of the situation in Australian official circles was apparently no greater than elsewhere and the fear of inflation, if the gold standard were to be abandoned, just as acute. The attitude of the banks, including the Commonwealth Bank, the country's rudimentary central bank, was most conventional and their desire to maintain the value of the Australian pound was strengthened by the prestige of an investigating commission from the seat of authority in London itself.

> "There was great reluctance on all sides to admit that the Australian pound was not identical with the English pound. All the force of tradition was behind the view that the two currency units were one. The governments were anxious, too, that no serious disparity between the two pounds should arise, because a higher rate of exchange meant, immediately at least, higher taxation to meet overseas interest. It seemed to many people that any serious depreciation of Australian currency as compared with sterling, would lead directly to uncontrollable inflation and precipitate a flight of capital, of which there was already some evidence" (i.e. in October 1930). (30)

The proof of the sincerity with which this conventional opinion was held lies in the vigour with which action was taken to support the value of the Australian pound. As in other countries tariffs were raised primarily in the hope of helping domestic employment; but their effect in retarding purchases abroad, thus releasing exchange for more pressing obligations,

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(30) Commonwealth of Australia, Report of the Royal Commission appointed to enquire into the Monetary and Banking Systems - July, 1937, p. 50.

was well understood. Of far more importance was the extraordinary abandon with which the country's gold reserves and London bank balances were thrown into the breach to balance the international accounts. This of course is the purpose for which such reserves are accumulated in good times; and the Australian banks had acquired large London balances. But it is a most unusual thing to see currency and bank reserves expended with such completeness. In most instances, gold payments are stopped long before the reserve is exhausted. Moreover, the possibility of greater profit from the sale of their reserves was open to the banks at any time had they chosen to let the rate on London rise. And these reserves in gold and London balances amounted in 1929 to roughly 90 million pounds sterling,[31] of which the balance of payments of Australia shows that almost 75 million pounds sterling was disposed of in the fiscal years ending 1929, 1930, 1931 (Table VIII). This far exceeds the sacrifice of gold reserves and bank balances made in Canada during the years 1928 and 1929, our period of strain on the foreign exchanges.

So heavy, however, was the sudden deficit in the Australian current account because of the fall in the value of exports, that even these huge additional supplies of foreign exchange were insufficient to meet the demand at the par rate of exchange. The banks therefore resorted to rationing the supply available amongst buyers. The service of the debt abroad was made a first charge on the supply through an exchange pool formed in September 1930 in which the Commonwealth Bank and the trading banks participated. Each bank put a certain percentage of its London balances at the disposal of the government annually thereafter for this purpose. Despite these efforts to maintain the rate a slight premium appeared on

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(31) D. Copland, Australia in the World Crisis, 1929-1933, (Cambridge University Press, 1934), p. 31.

sterling in late 1929 (Chart II). By December 1930 the banks themselves were paying 8½% premium, but outside the banks, trading in sterling proceeded at a premium of 10%. Lack of a legal monopoly of foreign exchange dealings by the banks made it impossible for them to peg the price of sterling at a level below that which would have ruled in a free market. Under such circumstances holders of sterling balances found channels through which they could be sold at a higher price than that agreed upon between the banks.

> "In December, 1930, when the banks' buying rate of 100 pounds sterling was 108 pounds 10s Australian, the outside market was offering 110 pounds Australian. The disparity between the two prices increased in the early part of January, 1931, when the outside market rate was 116 pounds Australian. On 6th January, the Bank of New South Wales altered its rate to 115 pounds Australian, the other banks followed suit,,and the outside market rose still higher. The banks then vigorously competed with the outside market by raising the official rate within three weeks to 118 pounds, 125 pounds and, on 29th January, to 130 pounds. The outside market then became quiescent, and the last rate remained unchanged until December 1931." (32)

In late 1931 an improvement in Australia's trade balance coincided with the departure of England from the gold standard and gave rise to the opinion that the rate on London would improve. The outside market rate fell "in November to 127 pounds as compared with the official rate of 130 pounds and forward exchange was being quoted at 126 pounds".(33) Fear of loss on exchange, for which they had been paying 130 pounds, led to conferences between the banks looking to the maintenance of the rate. But they were abortive and in December 1931 the Commonwealth Bank settled matters by offering to buy and sell exchange at 125 pounds.(34) After the elections the new federal government declared it would leave the management of the rate of exchange entirely in the hands of the Commonwealth Bank.

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(32) Monetary Commission Report, p. 51.

(33) Ibid.

(34) Op. cit., pp. 52f.

Indeed in April 1932 when the Wallace Bruce Committee appointed by the government to explore means for the promotion of recovery included a further measure of exchange depreciation amongst its recommendations, the Prime Minister said that he agreed, but the matter must be left to the Commonwealth Bank. The idea that the Australian government made an early and deliberate attempt to exploit the possibilities of currency depreciation in the interests of her exporters is clearly not in accord with the facts.

(b) The sharp drop in the value of Argentina's exports during 1929 and 1930 resulted in a shortage of foreign exchange and the peso depreciated. Efforts were made to maintain it but these failed. Finally the government took control of the exchange market.

Before the depression Argentina was a mature debtor country having, normally, interest and dividend payments abroad greater than the net inflow of long-term capital. This excess of debits was met by a favourable balance of merchandise trade. In 1929 the capital inflow was very small and exports were greatly reduced (Table IX). Export prices had begun to fall and the harvest of 1929-1930 had been poor. Despite a very heavy export of gold (Table IX, item 13), the Argentine peso therefore fell slightly at the end of the year (Chart II), convertibility of the paper peso into gold at the Conversion Office having been suspended on December 16, 1929. The shrinkage of exports was so severe in 1930 that the balance of trade turned adverse. This excess of imports, together with the usual debit in the other items of the current account, raised the current account deficit to its peak for the depression (Table IX, item 7). This deficit the government met in part by large short-term loans abroad (item 8). Bank balances abroad were sold and a small amount of gold exported. But these sources of supply were inadequate to meet the demand for foreign exchange at par and so the peso depreciated rapidly

during 1930 (Chart II). The shrinkage of the national income in 1930-31 consequent upon the poor returns from exports, and the increase in the price of imported goods brought about by the depreciation of the peso, reduced the value of imports drastically in 1931. Exports were maintained by good crops in spite of low export prices. The balance of trade became favourable once more. This reduced the debit balance on current account considerably. But the situation was made worse than it had been in 1930 by a flight of capital (Table IX, item 9). To meet this huge debit (Table IX, item 11) the government exported larger quantities of gold in 1931 than the banks had exported in 1929 (Table IX, item 13). But even this was insufficient to prevent the further decline of the peso (Chart II). In October 1931 the government established controls in the foreign exchange markets in Argentina to prevent the further depreciation of the peso. An official rate of exchange was fixed at about 60% of previous gold parity. But the accumulation of "blocked" pesos in Argentina during the next two years shows clearly that in a free market so high a rate could not have been maintained.(35)

Far from having deliberately depreciated the peso, the banks supported the exchange in 1929 by a large export of gold; in 1930 the government supported the exchange by raising a large loan abroad; in 1931 it used the gold stock behind the local currency to support the exchange once more; and finally the government took control of the exchange market entirely to prevent depreciation going to the lengths that it must otherwise have reached.

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(35) In November 1933 accompanied by a further measure of depreciation a system of dual rates was established (Chart II).

TABLE IX

ARGENTINA'S BALANCE OF INTERNATIONAL PAYMENTS 1928 - 1935[a]

(In Millions of Paper Pesos)

Calendar Years	1928	1929	1930	1931	1932	1933	1934	1935
Current Account Items -								
1. Merchandise exports (adjusted)	+2,428	+2,196	+1,414	+1,475	+1,305	+1,141	+1,618	+1,726
2. Merchandise imports (")	-1,902	-1,959	-1,680	-1,174	- 836	- 897	-1,110	-1,175
3. Merchandise balance	+ 526	+ 237	- 266	+ 301	+ 469	+ 244	+ 508	+ 551
4. Tourist and minor current items	- 170	- 127	- 117	- 78	- 67	- 51	- 53	- 65
5. Balance of merchandise and other services	+ 356	+ 110	- 383	+ 223	+ 402	+ 193	+ 455	+ 486
6. Balance of interest and dividends	- 468	- 489	- 468	- 483	- 459	- 426	- 482	- 479
7. Balance of all current items	- 112	- 379	- 851	- 260	- 57	- 233	- 27	+ 7
Long term Capital Account -								
8. New loans less maturities	+ 244	+ 80	+ 483	- 88	+ 15	+ 313	+ 140	+ 157
9. All other forms	-	- 80	+ 35	- 236	- 75	- 28	- 54	- 52
10. Total (8 + 9)	+ 244	-	+ 518	- 324	- 60	+ 285	+ 86	+ 105
11. Net debit or credit on Current and Capital Accounts	+ 132	- 379	- 333	- 584	- 117	+ 52	+ 59	+ 112
Balancing Items -								
12. Changes in bank deposits abroad	+ 15	- 16	+ 117	+ 22	- 20	- 49	+ 2	- 50
13. Gold coin and bullion	- 197	+ 403	+ 71	+ 562	+ 18	0	+ 61	+ 12
14. Total (12 + 13)	- 182	+ 387	+ 188	+ 584	- 2	- 49	+ 63	- 38
Residual Item -								
15. Errors and omissions	+ 50	- 8	+ 145	+ 0	+ 119	- 3	- 122	- 74

(a) League of Nations, Balances of Payments 1936. (Geneva 1937) pp. 52f. The items of the original table have been combined into groups as nearly comparable as possible to those of Table II.

(c) A comparison of the foreign exchange policies of Canada, Australia and Argentina. None of these countries took any deliberate action to depreciate their currencies. The latter two tried to maintain the exchange as long as possible. Indirectly all three governments acted to support the exchange by supporting the general credit of their securities.

The analysis of this section is not intended to be taken as an adequate treatment of the monetary policy of the central government either in Canada, Australia or Argentina. The point here in question is the behaviour of the exchange rate in each of these countries and the part played by the governments in determining that behaviour. The depreciation of the foreign exchange value of the Australian pound and the Argentine peso is sometimes said to have been caused, or at least encouraged, by government action. The monetary policy pursued by the Dominion government in Canada is said to have maintained the dollar at or near par in the years 1930-1931 and to have kept it at a higher level thereafter than it would have found of its own accord. The bearing of the analysis of this section on these contentions may now be summarized.

All three countries abandoned the gold standard early in the depression. In Canada, the convertibility of the Dominion notes into gold for export was ended, in fact, in early 1929 before the depression began, though the export of gold was not forbidden until October 19, 1931 and the convertibility of the Dominion note was not formally ended until April 10, 1933. By legislation in November 1929 the Commonwealth Government of Australia ended the private export of gold and provided for the transfer of the gold held by the commercial banks to the Commonwealth Bank. Argentina left the gold standard by ending the convertibility of her currency into gold in December 1929; the private export of gold was not prohibited. Before the end of 1929 the gold standard, in the sense of the convertibility of the local currency into gold

which may then be freely exported, had come to an end in all three countries by the action of their governments. There is no difference between them in this respect. All started the depression with a currency divorced from gold and free to move in response to shifting economic conditions. Neither in Canada nor in Australia did the government take any further direct action concerning the rate of exchange. In Canada the market remained a free one; in Australia the rate was determined first by the trading banks by agreement, modified by an outside or "black" market, and finally by the Commonwealth Bank itself. The government did not interfere with this practice of the Bank even when it disapproved. In Argentina the government took complete control of all dealings in foreign exchange in October 1931, not to encourage but to prevent the further depreciation of the peso. In no one of these three countries was the behaviour of the exchange rate interfered with by governments during 1930-October 1931, and only in Argentina thereafter.

Indirectly all three governments acted to support the rate of exchange by supporting their general credit abroad. This they did by the pursuit of a policy of "sound"finance - with varying degrees of success, it is true. Foreign debt payments on all federal government securities were successfully maintained in each case. Tariffs were raised in an attempt to promote employment and restrict the volume of imports. Government deficits appeared in all three countries and to varying degrees were financed by the sale of government securities to commercial banks - a definite measure of monetary expansion. But they were kept as small as possible, Argentina being least successful in this respect.

The abandonment of gold in 1929 had been occasioned by the Argentine government's habits of financing the customary budgetary deficit by borrowing from the commercial banks in

anticipation of funding issues. Being unable in 1929 to float a long-term issue abroad, the government was forced to suspend the export of gold. Otherwise the restriction on the cash reserves of the banks while they held large amounts of treasury bills would have forced them to put the whole burden of deflation following gold exports upon their private customers.

That the Canadian dollar maintained its foreign exchange value so much longer than the currencies of Australia and Argentina is due primarily to the very heavy flow of capital into Canada in 1930 and 1931. This inflow must be attributed to two factors. Canada had not exhausted her power to borrow abroad in the years before the depression began. At the same time the inflow of capital was larger than it might have been but for certain fortuitous circumstances. One of these was the unusually low volume of maturities in 1930 of previously-issued Canadian securities; the other was the existence since 1925 of a large outward flow of capital for the purchase of securities whose cessation in 1930 increased the net capital inflow notably.

Borrowing by the Dominion government abroad made an important contribution to the inflow of capital from 1930 on. The ability of the government to borrow throughout the depression was due alike to the favourable position of the Canadian economy, which was reflected in the maintenance of the rate of exchange, and to the orthodox views on monetary policy held by those in power. One need look no further than Ottawa's pronouncements on monetary policy, the government's rejection of the suggested deliberate depreciation of the currency or its adulteration by the use of the printing press, and the apparently impressive vindication of this policy by the return of the Canadian dollar to par - in contrast with the behaviour of the currencies of other exporting debtor countries - for the reasons for the high standing of Dominion securities in New York.

One must conclude therefore that both the opinions and the actual practice of the Dominion government tended on the whole to support the value of the Canadian dollar on the foreign exchange market, particularly in the years 1930 and 1931. Whether the high value of the Canadian dollar reduced the national money income of particular regions below the level at which it would have stood had the Canadian dollar depreciated, is another and a different problem which must now be discussed.

PART II

Currency Depreciation as an Alternative Monetary Policy for Canada, 1930-1933.

The advocates of depreciation urge three points in its favour. The gross money income of the producers of export commodities would be immediately and considerably increased. Since the cost of production would not at once rise to the same extent, their net money income would rise also. Before long the stimulus of the improvement in the export industries would spread over the whole country bringing an increase in the national money income. The following discussion attempts to appraise the validity of these contentions as applied to Canadian conditions since 1929.

(a) The lack of a central bank was no insuperable obstacle to the adoption of a policy of currency depreciation. At least two methods were available with the existing machinery. (a) deficit financing on a large enough scale, accompanied by monetary expansion (b) adoption of a sterling-exchange standard.

Before this discussion is undertaken a preliminary objection must be considered. It is sometimes argued that Canada lacked the financial machinery - a central bank - by which depreciation might have been effected. This difficulty was never considered a serious one by the parliamentary advocates of depreciation in the early stages of the depression. Some of them thought that merely to cease government borrowing in the United States or to "abandon" the gold standard would have depressed the dollar. But the gold standard had already been abandoned as completely in Canada as anywhere else, though no legal action had been taken. That the absence of the Dominion government from the international market as a borrower would have depressed the dollar much, is unlikely for the reasons discussed in Part I. Had all foreign borrowing ceased, the fall of the dollar would have been considerable, but the Dominion government had no power over other borrowers. Had the Dominion government announced an entire reversal of its policy of "sound" finance and indicated its intention to sustain the national money

income by a heavy programme of public works and similar projects to be financed, not by increased taxes and borrowing from the public, but by monetary expansion, the effect would assuredly have been of the order desired. There would have been no doubt about the seriousness of its intention to inflate or of its ability to do so. The upshot of such a programme - a fall in the purchasing power of the currency - is so well attested by experience, that a flight of capital would probably have occurred. This extra demand for foreign exchange would have driven down the price of the dollar at once; and the long-run effects of such a policy would have kept it down.

But it would not have been necessary to fly in the face of world opinion by embarking on such a policy in order to effect the desired fall in the external value of the dollar. A scheme which was widely discussed at the time would have been quite effective and would have carried no such implications of extravagant expansion in the volume of money. Had it been desired to depreciate to a given level below the pound sterling, say 20%, the government need only have announced its intention to devalue the dollar to that level and to offer at once to buy and sell sterling in any quantities at roughly $6.00 instead of $4.86. Canada would thus have gone on a sterling-exchange standard at a new and lower value of the dollar in terms of sterling. At this price the dollar could have been kept convertible into sterling. As long as Great Britain stayed on the gold standard, the price of the United States dollar in Montreal would have remained at about $1.23. When sterling depreciated, the Canadian dollar would have been carried down with it automatically. The premium on United States dollars in Canada in that case would have increased in proportion to the depreciation of sterling.

Such a scheme would have most of the advantages and disadvantages of the gold standard itself. It will be recognized that its operation would have been made much smoother had Canada

had a central bank. But it must be insisted, contrary to much current comment, that the absence of a central bank was no insuperable obstacle to the carrying out of such a plan. Had there been a will to depreciate a way would have been found.(36)

Whenever it is necessary in the following argument to deal with the method as well as the results of depreciation, it will be assumed that a sterling-exchange standard was the method chosen. Being quite as "automatic" as the gold standard, a sterling-exchange standard would have been the easiest method to work without a central bank. In contrast with deficit financing by borrowing from the banks, it would have directly lowered the exchange rate; the monetary expansion resulting would likely have been less; and after the exchange rates had been altered they would have been invariable with respect to sterling.

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(b) The gross incomes of exporters would not necessarily have risen in proportion to the amount of depreciation. The increase in each case would have depended upon the particular market circumstances affecting each commodity. An assessment of such circumstances indicates that the primary producers of the Western Provinces would have gained less, relatively, than those of other regions.

The first question to be discussed is the contention that depreciation would have raised the gross money incomes of the producers of export commodities by raising the price in Canada per unit produced, and by increasing the number of units sold abroad. Circumstances favour such an outcome where domestic prices are set by export prices and the volume of exports is a small part of total world supply. Then prices are likely to rise initially by the amount of the depreciation and yet any probable expansion in export volume would not much depress world prices subsequently. Gross income of producers might then expand almost in proportion to the depreciation. If, on the contrary, the volume of exports is a large part of world supply, the expansion of export volume would tend to depress

(36) Monetary policy can, of course, be carried through more effectively when financial machinery is modern and complete. The absence of a central bank in Canada was undoubtedly one of the important factors in the mind of the government weighing against the depreciation of the dollar.

world prices and rob the exporters of some or all of the increase in their gross income which they expect from depreciation.

Wheat is usually cited as the major beneficiary. Yet throughout this period the Canadian Co-operative Wheat Producers Ltd., with Dominion backing, was supporting the price of Canadian wheat in Winnipeg and Liverpool above normally competitive world prices. The probable net effect of exchange depreciation on the prices and income of Canadian producers is particularly obscure because of the interposition of the government wheat selling agency. This introduced an arbitrary and unpredictable factor in the situation. All that can be said is that exchange depreciation alone would not have automatically produced benefits for the wheat grower, but that gains might have been secured had appropriate government wheat selling policies been combined with exchange depreciation. This assumes, in part, a policy of restricting volume of sales to the amounts which were actually made, and by holding the sterling price securing a higher return in Canadian dollars. Presumably this is the most favourable alternative, for had an attempt been made to reduce sterling prices and expand volume, there was no surety in the conditions then prevailing that the Canadian competitive position would in fact have been improved, or that there would have been any result other than still cheaper wheat to consumers.

Meat and dairy products on the other hand were in the sort of situation most favourable to an increase in gross income of producers. The bulk of the sales were in the domestic market yet the price was set at times by that portion of the supply sold abroad. In neither of these commodities was Canada so important a factor in the export market as in the case of wheat. Lumber producers were not in quite so favourable a position, Canadian

exports being a larger factor in the overseas market; a reduction in the world price was probable had sales been expanded much. Competition from Scandinavia and Russia was keen.

Pulp and paper exporters were in a poor position to gain an increased price per unit from depreciation. Most of the production was marketed in the United States and during the depression the potential supply greatly exceeded the demand. In a buyers' market of this sort it is probable that price-cutting would have robbed the Canadian producer of any rise in prices from depreciation. But at the new lower American price Canadian producers would have been able to sell more in the American market in competition with United States producers and competitors from overseas. A very welcome expansion in the volume of production might thus have been secured without any serious decline in the Canadian price. That would have been a very considerable benefit to an industry where overhead costs are so large a percentage of total costs.

Canadian base metal producers, having consistently maintained an independent position in relation to the various world cartels, were in a strong position to obtain from depreciation a higher return in Canadian dollars, a larger market, or both. Unfortunately they were heavily stocked with inventories and it is unlikely that even a 20% increase in the low prices then prevailing (e.g. copper from five cents to six cents) would have led to a great expansion of operations or the opening of many new properties.

Gold stands out as the one commodity which would have received the full benefit of any depreciation. The market abroad is unlimited as long as any country remains on the full gold standard. Since Canada possessed in the early years of the depression important marginal resources capable of rapid exploitation, the stimulus to the industry and the increase in the gross money income of gold-producing regions would have been certain.

Some expansion in the export sales of Canadian manufactured products, particularly those manufactured in branch plants of American concerns, might have been expected in preferential Empire markets and in Latin America even in competition with the parent companies.

One of the most likely sources of benefit from the depreciation of the Canadian dollar was the tourist traffic. The diversion of even a small percentage of the normal American tourist traffic from Europe or the United States itself to touring in Canada under the attraction of a cheaper dollar would have meant an important increase in the income from this source.

Even this brief consideration of the matter should make it clear that no generalization cam be made about the effect of depreciation on the gross money income of Canadian export-commodity producers. Only a close study of the particular circumstances of each industry at the time of depreciation would reveal the probabilities in each instance. One may perhaps venture the generalization, however, that the likelihood was that depreciation would have benefited the primary producers of the western provinces less, relatively, than those of other regions of the Dominion. It would seem true also to say that advocates of depreciation were too ready to assume a substantial rise in the gross money income of exporters as a consequence of depreciation.

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(c) The increase in incomes of exporters resulting from depreciation would be offset to varying degrees by the rise in costs of production and living. The degree of rise in such costs depends upon the nature and importance of imports, the amount of debt service due abroad and the increase in the national money income. In any case the burden of taxes and debts on primary producers would be lessened.

Amongst the arguments against depreciation none is more common than the contention that the increased gross income which depreciation might bring to export-commodity producers would be offset by the increased cost of doing business and of consumable

goods and services. There would be slight, if any, increase in net money income or in the producers' standard of living. To the extent that the export producer buys goods abroad or has debts to meet in other countries his costs will rise roughly in proportion to the depreciation. His prospects of gain depend therefore on these payments being a small proportion of his total expenditures. The larger the proportion of his costs which are unaffected by the depreciation, or which are raised less than in proportion to the depreciation, or which at least rise more slowly than his income grows, the greater his chance of a net gain in his money income. If the rise in costs does not lag behind the rise in income, depreciation has little point.

One of the most burdensome elements in the cost of doing business and of living in export regions, especially in the western provinces, in the early years of the depression, was debt and taxes. As prices fell an undiminished load of private and public debt charges had to be met from a rapidly diminishing gross money income. Depreciation would have increased the weight of this expense slowly if at all. Any rise in gross income would have been all to the good here. To the degree that gross income grew, depreciation would have tended to restore the taxable capacity of the export producers and would thus have lessened, or at least postponed, the financial difficulties of the governments and private financial institutions dependent upon them.(37)

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(37) Some have argued that in the light of our present knowledge of the character of the depression which was ahead in 1930-31, such a postponement of an inevitable readjustment of this burden of indebtedness would have been pointless. Inevitably mortgage and bond interest would have been defaulted and tax arrears would have accumulated much as they actually did, though at a later time. Such an argument assumes however that the depression in Canada could not have been mitigated by depreciation. This its advocates would vigorously deny. Just to have postponed such events as defaults and tax arrears they believe would have kept the economic machine in operation till the curative effects of depreciation on the whole economy had a chance to appear. This argument will be assessed below in considering the probable effects of depreciation on the national money income as a whole.

The effeets of depreciation upon commodity prices in Canada depends upon much the same considerations as were adduced in discussing its probable effects upon the prices of exports. Goods of which the Canadian consumption was mostly imported would rise in price roughly by the amount of the depreciation unless the Canadian demand was a considerable part of world demand. In that instance foreign producers might think it wise to absorb part of the cost (e.g., coal from the United States). Canadian prices would then rise less than in proportion to the depreciation. Commodities manufactured from imported raw materials, or which compete closely with imports (e.g., as substitutes), would probably show some price rise. Goods made from raw materials predominantly exported would rise in price, if the depreciation raised export prices. Tariff changes and the existence of monopolistic or semi-monopolistic conditions would also have their effects on price behaviour. In short, no generalization can be made about the probable behaviour of particular prices. Where the purchases of export producers are concentrated on a rather narrow range of commodities, the probability of their gaining from depreciation depends upon the relative rise in their gross money income and in these particular prices and costs. Even a net loss is not inconceivable.

Whether or not prices will rise, on the average, is not to be determined merely by an analysis of conditions in particular industries. Rather it will depend upon whether depreciation results in a larger national money income. Should it do so, wages and other costs would tend to move upward; and such an increase in costs of production would produce eventually a general rise in prices.(38) The probability of a general rise in prices has been sometimes scouted in recent years on the basis of actual experience following depreciation, particularly that of Great Britain.

(38) See the discussion of the effects of depreciation on the national money income below at pp.72-82.

The remarkable stability of British prices after the fall of the pound was a great surprise to those who looked for an immediate inflation as the sure result of the abandonment of the gold standard. The explanation of the apparent anomaly lies for the most part in the fact that the trend of prices in other countries was still downward; the stability of prices in Great Britain was in fact a relative rise.(39) And that is the only sort of rise in prices - a movement upward relative to the world-wide trend - that can be said to be a likely result of depreciation. This is equally true, it should be borne in mind, of the behaviour of the gross money incomes of exporters. If the trend of world prices and money incomes be sharply downward, depreciation is likely to do no more than lessen the rate at which both prices and incomes fall.

Of the three questions raised for discussion at the beginning of this section, two have now been discussed. The effect of depreciation, upon the gross money income from the sale of export-commodities, upon the cost of production and upon the price of the commodities which enter into the standard of living of the producers of the primary export commodities has been seen to vary from product to product. No general statement can be made as to the net gain in money incomes which would result. Unless the gross money incomes failed to increase at all there would be some gain in the servicing of debt and other fixed charges due in Canadian dollars. Some part of the increased incomes of exporters will be lost at once in paying higher prices for remittances to other countries and for imported goods. How far the rest of their added income will go in meeting the costs of production and of living depends in the first place upon whether exporters spend their money upon those products whose prices rise most or upon those which rise least, and secondly upon the average rise in all

(39) Much more would have to be said of course in an extended discussion of this problem. Of particular importance is the difference in the probable reaction of prices when the depreciation is a deliberate one rather than a revaluation of the currency tending to correct a previous state of international disequilibrium.

prices and costs. Since the behaviour of prices upon the average depends primarily upon the effect of depreciation upon the national money income, it may be considered together with the third of the questions proposed at the beginning of this section. Would the stimulus of depreciation to the export industries bring an increased volume of business and a rise in the national money income?

> (d) Prior to September 1931, deliberate depreciation would have been detrimental to the national income. However, deliberate depreciation coincident with Britain's abandonment of gold would probably have increased the national income and would have been beneficial to exporting areas.

In discussing this question it will be assumed that the producers of export-commodities experience a net gain in their money incomes because of depreciation, i.e., that there is an increase in their power to buy or to save. The advocates of depreciation contend that this improvement in the economic position of the producers of primary commodities is, in such a country as Canada, a prerequisite to recovery. The fall in the prices of agricultural products which began in 1928 was, they believe, a powerful factor in bringing on the depression the world over. In Canada it so reduced the purchasing power of a large part of the population that a decline in the volume of production soon followed. Poorer business prospects caused new investments to be postponed; the production of capital goods shrank severely. Not until the outlook brightened in agriculture or some other industry would investment revive. Neither "easy money" nor public works would bring more than temporary relief in a country where the volume of private investment of both domestic and foreign capital depends so closely upon the prosperity and future prospects of its primary producers. Depreciation, its advocates would admit, could not keep those prospects at their brightest in the face of world-wide collapse. But it would tend to maintain the national money income, they contend, and so to mitigate the severity of depression and promote early revival.

The difference between a period of prosperity and one of depression arises not so much from variations in the volume of employment in the production of goods for current consumption as in the much greater fluctuations in the volume of employment in the production of capital goods. In good times confidence in the future of business is high, savers invest their money willingly, business men are in a mood to risk their own and borrowed capital in new ventures. In such a period investment continues to grow in amount until the prospect of making profits from owning capital goods fades. When this change of sentiment as to business prospects occurs the demand for capital goods suddenly disappears, depression begins. Recovery from depression will occur only when some measure of confidence in the future of business has been restored. If the effect of depreciation on the national money income is to be assessed the main point to be attended to, then, is its effect on the volume of investment, through its impact on the business man's confidence in the future.

The depression of the years 1930-1933 displays two well-marked phases which might be called mild or "normal" depression during the years 1930 and early 1931, and severe depression in 1932 and early 1933. Whatever be the causal relationship between them, the transition from mild to severe depression was associated with the outbreak of the European financial crisis of the summer of 1931. The high point of this crisis was the abandonment of the gold standard by Great Britain. That event may be taken as a convenient landmark dividing these two phases of the depression. The writer believes that to have depreciated the Canadian currency during the earlier or mild phase of the depression would have been unwise; it would probably have reduced the national money income. But depreciation at any time after September 1931 would have tended to increase the national money income; and the probability of this favourable result increased as the depression wore on. No one now denies that the depreciation of the Canadian dollar which actually took place in 1933 helped to lay the basis for recovery in Canada. The reasoning on which this conclusion as to the

probable effects of deliberate currency depreciation is based, must now be stated briefly.

The characteristic feature of the early stages of any depression is a steady deterioration in the confidence felt by business men in the future of business. As evidence accumulates that the tide has definitely turned, optimism turns into pessimism. Past experience warns that things are likely to be worse before they are better. As this conviction gains in strength borrowing is checked, inventories are reduced and projects of expansion postponed. Investors respond to these developments by refusing to buy new securities and by unloading their present holdings. Everywhere there grows a desire to improve cash positions. Cash is least costly to hold when its purchasing power is increasing through falling prices; its possession puts investors and business men in a position to seize favourable opportunities when they occur. This scramble for cash tends to spread out from the centres of greatest pessimism or greatest financial strain, and to become cumulative. In the early stages of a depression therefore a general struggle for greater liquidity occurs. Unless there is an absolute increase in the volume of cash available in the country, the process of "cleaning-up" outstanding lines of credit cannot go far without producing bankruptcies. These in turn unsettle confidence further; thus the "vicious spiral of deflation" sets in. The national income is reduced not, it is to be noted, by any shortage of cash since its volume has not been reduced, but by its gravitation into the hands of those who do not propose to use it for investment in projects which will employ the factors of production; they intend rather to 'hoard' it. As a consequence there is a decline in the frequency with which a given unit of the country's cash passes through the hands of an employee as income; the "income velocity" of money falls.

In Canada as in other countries confidence in the immediate future of business waned in late 1929 and in 1930. Yet the feeling that the depression would be a short one was general, especially on this continent. There had been no prolonged depression since the twentieth century began except that of 1921-1922 which was obviously a natural aftermath of the War and post-war boom., The recessions in the United States in 1924 and 1927 had been readily ended by the "easy money" policies of the Federal Reserve system. It was generally believed that the 1930 decline would yield to similar methods of control. In Canada the difficulties which had been experienced in 1929 had apparently passed. Though gold payments had not been resumed, the dollar had returned to par of its own accord. Public opinion was almost unanimous in believing that to follow the rules of "sound" finance was the only safe course for an economically young country like Canada. Rates of exchange should be kept as stable as possible in the interests of our large foreign trade and the future borrowing of capital for the exploitation of our abundant natural resources. To encourage the influx of this capital once more when business should revive, the credit of both public and private borrowers should be kept as high as possible. Payment of contractual obligations must take precedence over all other expenditures. National policy should facilitate these payments rather than make them more difficult. Budgets must be kept as near in balance as possible and inflationary and unsound "short-cuts" to prosperity avoided.

Strict adherence to such principles was deemed particularly necessary in 1930 because of the huge increase in both public and private indebtedness which had taken place. Borrowing to open up the country, to finance the War and to provide all the new services demanded of governments since the War, had been very heavy. Not only did a greatly increased annual interest charge have to be met but maturities of some of the

earlier issues were to occur shortly. In the years 1931-1934 the Dominion government alone faced the prospect of maturities totalling almost $1,200 million. Clearly the state of the market for Canadian securities was a very significant matter to all governments and the larger private corporations in Canada. And that market was continent-wide. So intimate were the relationships between the security houses and financial institutions on both sides of the border, so large was the volume of securities readily marketable on either side, so sensitive were prices to influences originating in either country, that it behooved all borrowing authorities in Canada to behave circumspectly. Not only would the price of Canadian securities suffer from any false move, but the foreign exchanges might be disrupted by the relatively large capital movements to which small changes in security prices tended to give rise.

In the light of such considerations it is small wonder that the Dominion government summarily rejected suggestions made in Parliament to depreciate the dollar in the years 1930-1931. As a motive in this rejection the debt situation was undoubtedly to the fore; but in the background was the general opinion that the proper policy for Canada was that of "sound" finance. Only by following such a policy would either governments or private businesses be able to pay their way. Granted adherence to such a policy, prospects that the depression might not prove a serious one seemed good. This confidence in the essential soundness of the situation would have been profoundly shocked had the Dominion government deliberately depreciated the Canadian dollar without a shadow of excuse in the balance of payments situation itself. The general opinion was that the situation in the western provinces had not yet become so serious as to be beyond cure by less radical and disrupting measures. The unfortunate reaction of investors and those in charge of business policy to such action would in all probability have outweighed the stimulating effects

arising from an increased gross income to some export-commodity producers. The national money income and the tax-paying powers of the Canadian people as a whole would have been worse not better. The government's rejection of the suggested depreciation of the currency must therefore be deemed wise in the circumstances of 1930 and early 1931.[40]

Had depreciation been carried out in 1930 or early 1931 the confidence of business men in the future would not only have been undermined by the act itself, but its early effects would probably have depressed business sentiment yet further. The stimulating effects of depreciation appear more slowly than do some of its disturbing consequences. Some of the increased income of exporters goes to pay taxes and keep up debt payments rather than to buy goods; a further part of it may go to repaying commercial bank loans in the export regions; some of it would probably be hoarded by the wealthier producers or business men in these regions. Only a part of the increase would find its way to the central provinces soon after the depreciation. Since the trend of agricultural prices in the early years of the depression was sharply downward, it is not impossible that a moderate depreciation would merely have arrested the downward movement of farm income rather than have increased it. Were that the case the business men dealing with farmers would find it difficult to discover the stimulus to business arising from depreciation.

Against this problematical stimulus to the business of the nation there must be set certain definite and conspicuous additional costs of doing business arising from depreciation.

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(40) It is to be noted that the writer is not arguing that depreciation would have made it impossible for the country to meet its debts abroad, as some argued. Such debts are paid for in the foreign exchange obtained by exporting goods and services and there is no reason to believe that on the whole the yield of our exports in terms of foreign currencies would have been diminished by depreciation; it would probably have increased. The argument is that within Canada the money normally put "into circulation" by investors would have been reduced by more than the increase in the money income of the exporters. Taxable income would thus have fallen and governments would have had to meet an increased cost of servicing the foreign debt from a diminished revenue from taxation.

Foreign payments for the servicing of external debt and the purchase of necessary imports of raw materials may add more to the costs of particular firms than they obtain from the added expenditures of exporters. Indeed the sudden imposition of these additional costs of operation may cause the collapse of firms whose position is already precarious. If the number and importance of such firms is considerable a rapid succession of bankruptcies might ensue. Fear of almost panic proportions might be induced by the sudden and almost simultaneous collapse of these firms, whereas their more "orderly" liquidation in the course of the depression would have been much less disturbing to confidence. Some important Canadian industries were likely to find their costs of doing business raised much more than their income. The added cost of the foreign exchange required to maintain the bond interest of electric power companies for instance, would have raised their costs of production almost in proportion to the depreciation with no likelihood of any early increase in income. The financial centres of the country would have had cause for increasing concern as the consequences of the additional burdens imposed by depreciation made their appearance. The continuance of debt payments from the export regions upon such things as mortgages would not have alleviated this growing concern much; indeed the "sound finance" predilections of financiers would have led them to reject the view that but for depreciation their receipts from the export regions would have been worse. The probability then is that the shock to confidence from the act of depreciation would have been accentuated by its near-term effects. At any time before the abandonment of the gold standard by Great Britain the net effect of depreciation upon the national income of Canada would have been bad.

The chances that depreciation would have resulted in a net relative increase in the national money income improved with Britain's abandonment of gold, and became still better as time passed. The growing severity of the European financial crisis

during the summer of 1931, of which the British action was the culmination, and the spread of financial strain to the United States seriously worsened the outlook for business in all countries. The shock to confidence from this collapse of one of the leading financial powers was immense. Thereafter the volume of investment in Canada as in other countries shrank rapidly to its minimum for the depression. Had the Canadian dollar been forced down on the exchange markets below the levels to which it in fact fell in terms of New York funds, confidence would have been further worsened. But there is no reason to believe that this worsening would have been a significant factor in reducing the actual investment of money in Canadian enterprises much below its already low level. This is the chief respect in which the situation differs from 1930; at that time the volume of investment was still considerable and would have been substantially reduced by the shock to confidence depreciation would have produced in the circumstances of the time. In 1931-1932 however the reduction of the money actually in circulation in Canada from a further shock to confidence would probably have been slight.

If this be so, a strong case can be made out for the view that the national money income would have been relatively larger had the Canadian dollar been forced down to the level of the pound in New York in late 1931 following the depreciation of sterling. The actual exchange movements (Chart II and Table I) favoured exporters selling in the United States and increased substantially the cost of New York funds to those who had payments to make there. Both the advantage and the disadvantage of the premium on United States funds fell for the most part on the central provinces; whether there was a net advantage it is impossible to say. But of the severity of the damage to the export regions whose products had to be sold overseas, there can be no question. To an exporter the appreciation of his own currency relative to that in which he must sell is a disaster. That the currency of an exporting country should have been allowed to appreciate with respect to that of its chief market was an anomaly the correction of which

should not have been found astonishing. That we should have refused to permit the very serious aggravation of the situation in the western provinces through a series of events over which we had no control might have been expected. The depreciation of the Canadian dollar at least to the level of the pound might surely have been regarded as little more than an anticipation of the inevitable. Had Ottawa given Canadian opinion a lead in this direction the domestic reaction to such a depreciation might have been unimportant.

But at Ottawa the opinion was strongly held that the fall of the pound was a disaster to Great Britain and all other British countries. Deliberate depreciation by Canada was regarded as an unthinkable aggravation of an already bad situation. Despite the heavy refunding operations already carried out, the Dominion government's demands on the domestic and United States bond markets were likely still to be large. Deliberate depreciation by tying the Canadian dollar to sterling would moreover have been to have accepted as satisfactory for Canada such fluctuations in the premium on New York funds as the future course of the pound in New York would have produced. There were sound reasons for hesitating before adopting such an arrangement. As events turned out the only serious result of the adoption of a sterling exchange standard at the old par, would have been a somewhat larger premium on New York funds until the devaluation of the United States dollar should have brought it back to par also. But the uncertainties of the future of sterling and the financial orthodoxy of public opinion and of the government led to the choice of other instruments to promote recovery. In common with the other nations of the Empire an "easy-money" policy was adopted in the hope that the rise of prices in Great Britain would ease the position of exporters in the Dominions.

As the depression deepened in 1932, the halting of the fall of the gross money income of the exporting regions especially the western provinces became imperative. At the same time the disadvantages of depreciation as a method of providing that aid grew appreciably less. Contrary to the general expectation of disastrous price inflation in Great Britain and great economic disturbance after the fall of sterling, the price level merely ceased to fall and became stable at current levels; business conditions showed positive improvement. In gold standard countries, particularly in the United States, the situation grew steadily worse. Doubts grew as to the expediency of financial policies whose soundness had hitherto been regarded as axiomatic. The Minister of Finance gave it as his opinion that the actual degree of depreciation of the Canadian dollar in New York was a good "compromise", thus recognizing the altered situation. In the country at large the opinion that something new should be tried became widespread. Deliberate depreciation would probably have produced much less shock in 1932 than in 1930.

Depreciation tends not only to increase the gross money income of the producers of export commodities but improves also the cash reserve position of the commercial banks, thus easing any strain which may arise from the cash drains which usually occur in depressions. This improvement arises from two sources. The rise in the price of foreign exchange increases the Canadian dollar value of the cash and other liquid assets held abroad; gold held in Canada rises in value similarly. This effect of depreciation was not an important argument in its favour in 1930 as net capital imports then enabled the banks to improve their cash balances very considerably. The resumption of borrowing under the Finance Act in late 1931 is evidence that the steady drain of cash from the banks in 1931 (Chart I) had made serious

inroads on the cash of at least some of the banks. Total bank cash was only brought back to the level of late 1931 by the $35 million borrowed under the Finance Act at the instance of the Dominion government in November 1932. Depreciation at any time during late 1931 and 1932 would have sensibly improved the cash position of the commercial banks. And this would have been effected without putting the banks in debt, a position most of them disliked. It would probably have been a more effective stimulant to "easy money" (dollar for dollar that is) than the sums borrowed under the Finance Act were.

But the government's attitude toward depreciation remained unchanged in 1932, and in 1933 the Canadian dollar fell to the level desired by most of the advocates of depreciation - parity with the pound sterling. The return of the United States dollar to par at the same time probably brought a net gain also. Payments to be made in New York funds now cost much less; the loss of the premium on exports to the American market was mitigated by the rise in the price of gold to $35 an ounce and the commencement of business recovery. With these events depreciation of the Canadian dollar became a dead issue.

(e) Summary

The argument of this section may now be summarized. Lack of a central bank was not an insuperable obstacle to depreciation, though its absence increased the government's doubts as to its advisability. The possibilities of raising prices and of increasing substantially foreign sales of Canada's exports by currency depreciation varied from a certainty in the case of gold to a small chance in the case of wheat. Its effects on gross money income would have varied markedly from region to region. The probability that costs of production would rise also varied according to the elements of which cost was composed in

the several regions. The net gain in money income to producers of export commodities would therefore depend on the increase in gross income which would be reduced to a varying degree according to the proportions of the gross income which were spent on the purchase of imports, on domestic goods raised in price by depreciation; and in payment of obligations, such as debts and taxes, relatively fixed in terms of Canadian dollars. No statement is possible as to the general effect for Canada as a whole. But it seems likely that export producers in the central provinces would have received relatively a larger net gain than those of other regions.

The effect of depreciation on the national money income is yet more difficult to assess. Apart from changing receipts from exports, variation in the volume of domestic and foreign capital currently being invested in Canada is the chief source of the rise and fall of the national money income. Since confidence in the business future determines investment, the effect of depreciation upon confidence is the matter to be appraised.

In 1930 and early 1931 the economic situation in Canada was not more serious than in past depressions of similar duration. No events had occurred likely to raise question as to the expediency of a "sound" monetary policy. Deliberate depreciation of the Canadian dollar below the pound sterling and the United States dollar would have been a profound shock to business confidence. The uncertainty of the future would have been greatly increased and investment curtailed. This reduction in investment would probably have decreased the national money income by an amount not likely to be offset by the added income of exporters.

By late 1931 and 1932 however, the financial crisis in Europe and the United States had so undermined confidence that investment was at a very low level indeed. Any shock to confidence which depreciation in this period might have produced would therefore have been less serious in its effects on the national money income. The additional income gained by exporters would probably have exceeded any loss of income from a further reduction of

investment in capital goods. The shock to confidence arising from depreciation would probably have been much less in 1931 and 1932 than in the earlier period. A revolution of public opinion on monetary policy was well underway, stimulated alike by the unexpected contrast between the economic situation in those sterling bloc countries where currency depreciation had taken place and in the countries remaining on gold, and by the extraordinary depth of depression in 1932. The expediency of continued adherence to orthodox policies was being widely questioned. Because of this change of opinion and of the low volume of current production of capital goods, it is likely that depreciation would have raised rather than lowered the national money income anytime after September 1931.

The general conclusion then is that deliberate currency depreciation would have reduced the national money income if carried out before Britain's abandonment of the gold standard, but would have increased the national money income thereafter.

In evaluating these conclusions the reader is asked to bear in mind the character of the analysis in this section of the memorandum. Economists can set out the factors likely to operate in a given situation. Despite a common opinion to the contrary, they do agree as to what these factors are and how each would work in isolation. But there is as yet no means available to estimate the relative weight in a particular situation of such forces as those considered here. Yet conclusions must depend upon judgments as to the importance from time to time of this factor and that. Opinions are therefore bound to differ. Others have already come to conclusions at variance with those reached here. The factors which the writer thinks relevant have been set out in this section to indicate the reasoning by which his views have been reached and to aid the reader in forming his own.

APPENDIX

NOTES ON CANADA'S BALANCE OF INTERNATIONAL PAYMENTS 1900 - 1937

Estimates of Canada's balance of international payments are currently compiled by the Dominion Bureau of Statistics and revised by the latest methods back to 1926. The estimates for the years 1900-1913 have been made by Jacob Viner in his book "Canada's Balance of International Indebtedness 1900 to 1913" (Harvard University Press, 1924). The writer has made estimates to fill the gap between 1913 and 1926. All these estimates have been assembled in one table for the years 1900 to 1934 together with a brief explanation of the methods used in arriving at these estimates and of their comparability, in Marshall, Southard and Taylor "Canadian-American Industry" (Ryerson Press, 1936).

Two circumstances have made it inadvisable merely to bring that table up-to-date in providing a balance of payments for use at the present time. The Dominion Bureau of Statistics has recently made a thorough revision of its estimates involving important changes on the basis of new information available since 1934 (see the Canadian Balance of International Payments 1926-36, Ottawa, 1937). It is now possible also to make certain important improvements in the estimates in the years 1914 to 1926, and some minor changes in Viner's calculations to make them comparable with the way in which the Bureau now sets up its estimates. For a detailed explanation of method the user of these tables is referred to Marshall, Southard and Taylor for the years 1900 to 1926, and to a forthcoming bulletin of the Bureau of Statistics for the years 1927 to date. The following notes are intended merely to indicate the important revisions here made.

1. Commodity and Gold Trade

The exports and imports and trade balance figures have been revised to exclude all gold both monetary and non-monetary; to exclude previously recorded imports and re-exports of foreign products in transit across Canada; and to eliminate certain small types of exports and imports for which no receipts are obtained or payments made. The figures in columns I, II and III are thus made comparable from 1900 to date, and consequently differ somewhat from the Marshall, Southard, Taylor tabulation. Column IV estimates the net export or import of all gold. A separation of this amount into monetary and non-monetary gold is to be found in the Bureau's bulletin; in Marshall, Southard and Taylor, at page 314, the trade in gold coin and bullion is separately stated. Column V summarizes the commodity and gold trade balance.

2. Tourists

No change has been made in the estimated tourist receipts and payments.

3. Interest and Dividends

Small changes have been made here because the estimated capital inflow has been changed as explained below.

4. Other Current Items

The only important change here from the Marshall, Southard and Taylor compilation is to be found in the treatment of the business of British and foreign life insurance companies in Canada, and Canadian insurance companies operating abroad. For the years 1900 to 1926 the method is unchanged - that is, the estimated payments and receipts for insurance services are included in "all other current items", and the capital movements arising from the investment activities of insurance companies are included in column XXII.

The Bureau has abandoned this method using instead a net figure of cash payments or receipts on all business of insurance companies, both of the service and of the investment type. Unfortunately the two types of transactions are not separable in the return of the companies to the Bureau, but as they appear to be largely capital movements the Bureau enters them all in column XXII. Therefore no entry for insurance services is included in columns XII, XIII, and XIV after 1926. Thus the estimates in these columns are not strictly comparable, the break occurring at 1927.

For the years 1914 to 1920 a debit on account of the cost of the Canadian Expeditionary Forces has been included in "all other current items" for the first time for reasons stated below. The amounts are those given in the Canada Year Books for fiscal years roughly adjusted to calendar years. These debits total $595 million distributed over the years 1914 to 1920 as follows, in millions of dollars: 5, 30, 100, 175, 170, 95, 20.

5. Total of all Current Account Items

For the years 1900-1926 the amounts in columns XV, XVI and XVII are found by the additions indicated at the head of each column. For the years 1927-1937 the totals are as these are given by the Dominion Bureau of Statistics. They differ from those of the earlier years by the inclusion of total exports and imports of gold, both monetary and non-monetary, in the receipts and payments columns respectively. In the earlier years the gold trade appears only in column XVII.

6. Capital Imports and Exports

The estimates for the years 1900 to 1926 have been recast from the form given in Marshall, Southard and Taylor to conform to the set-up now used by the Dominion Bureau of Statistics. Changes in British and foreign holdings of Canadian securities are estimated still substantially as before.

Viner gives only the net capital movement. For the years 1914 to 1926 complete new issue and maturity figures are not available; some small net amounts are included in column XX thus explaining the apparent arithmetical errors in these columns during these years. Column XXI states separately the net capital movement arising from the international trade in securities already issued. These amounts are known definitely since 1933 from returns being made to the Bureau; for earlier years their probable amount has been estimated. Necessarily such estimates are less trustworthy for the earlier years. Such account as Viner took of the international trade in securities is already included in his capital movement estimates (column XX); therefore, no entry is made here for the years 1900 to 1913, in column XXI.

The Dominion Bureau of Statistics now obtains very complete returns of the cash transactions between branch and controlled companies in Canada and their head offices abroad. The dividend payments and receipts so reported are included in columns IX, X and XI, and for the years 1927 to 1937 the net capital estimates of column XXII is derived largely from those returns. This information is much more accurate than that on which all previous estimates of direct capital imports have had necessarily to be based. It appears, on the basis of these returns, that the estimates of direct capital movements included in the earlier calculations by the writer for the period 1914 to 1926 were very probably much too high, and a new and smaller estimate of this direct capital inflow has therefore been made and forms the larger part of the amounts given in column XXII for the years 1914-1926. For the years 1900-1913 Viner's estimates of all forms of investment, other than those made through securities, are given here without change.

In his estimates for the years 1914-1926 as published in Marshall, Southard and Taylor, Canadian-American Industry the writer entered no debit in the current account for the expenses overseas of the Canadian Expeditionary Force. It appeared then that the net balance owing by or to the Dominion government, because of its war-time dealings with the British and other governments, as stated in the Public Accounts, was a sufficient reflection, for balance of payments purposes, of Canada's war finance in all its aspects. As a result of a review of the Dominion government's financial transactions with other governments during the War and the way these transactions are summarized in the Public Accounts, made with the help of officers of the Department of Finance, it is now clear to the writer that this procedure was insufficient. The earlier estimates have therefore been revised to give a more accurate reflection for each calendar year of the net flow of capital between the Dominion and the British and other governments and a new debit item for the expenses of the Canadian forces outside the country has been included, as noted above, in the current account.

The effect of this revision is to reduce materially the very large credit balance shown in the earlier estimates for the balance of payments as a whole. For the war years a large part of the debits formerly needed to balance the account have been obtained. While the revised inter-governmental capital movement calculation is markedly different for particular years, it agrees substantially with the earlier estimate for the years 1914-1918 as a whole, the difference being only $20 million. The current account debit item for the cost of the overseas forces, however, totals $595 million for the years 1914-1920. The amount still required to balance the account as shown in column XXVI is of quite modest proportions for the years 1914-1919. The exception to this statement in the years 1917

and 1918 is just the sort of offsetting credit error in one year and debit error in the next which is very apt to occur in balance of payments calculations because of the difficulty of allocating transactions near the year-end to the year in which they properly belong. During the War when the transactions themselves were large and when many of the annual totals had to be obtained by rather arbitrarily converting data from a fiscal year to a calendar year basis, such an error is not at all surprising.

The writer is still unable to throw any light on the very large errors and omissions which remain in the estimates for the years 1920-1926.

7. Canadian Bank Balances Abroad

A complete revision of all former estimates of the net foreign assets of Canadian banks is the basis of the debits and credits entered in column XXV. For the years 1927-1937 the estimates are those of the Dominion Bureau of Statistics. For the earlier years estimates have been made on the basis of the most recent information. This information makes it possible to estimate with a fair degree of accuracy the probable amount of some foreign asset and liability items which could not formerly be segregated. Furthermore, by contrast with the method formerly used both by Viner and the writer, the holdings of foreign securities by the Canadian banks are now included in estimating the "bank balances abroad", i.e., the net foreign assets of the Canadian commercial banks. The calculation is made on the basis of the situation as at December 31st of each year.

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS 1900 - 1937

(In Millions of Dollars)

Year	Commodity Trade: Exports	Commodity Trade: Imports	Commodity Trade: Balance (I - II)	Gold Trade Balance	Commodity and Gold Trade Balance (III + IV)
	I	II	III	IV	V
1900	156.0	176.5	- 20.5	+ 16.0	- 4.5
1901	170.2	182.6	- 12.4	+ 23.2	+ 10.8
1902	190.4	203.4	- 13.0	+ 11.6	- 1.4
1903	201.9	251.8	- 49.9	+ 6.5	- 43.4
1904	176.1	249.2	- 73.1	+ 7.9	- 65.2
1905	205.2	263.6	- 58.4	+ 14.0	- 44.4
1906	254.0	312.3	- 58.3	+ 6.1	- 52.2
1907	253.8	363.0	- 109.2	+ 3.8	- 105.4
1908	249.3	282.6	- 33.3	- 13.9	- 47.2
1909	269.0	339.6	- 70.6	- 1.1	- 71.7
1910	280.8	429.0	- 148.2	- 6.1	- 154.3
1911	284.1	506.3	- 222.2	- 19.4	- 241.6
1912	351.7	626.0	- 274.3	+ 12.8	- 261.5
1913	442.9	654.9	- 212.0	- 4.8	- 216.8
1914	369.1	470.8	- 101.7	+ 23.0	- 78.7
1915	613.9	447.2	+ 166.7	- 14.6	+ 152.1
1916	1,072.4	762.4	+ 310.0	+ 11.6	+ 321.6
1917	1,555.2	996.5	+ 558.7	- .9	+ 557.8
1918	1,209.4	922.4	+ 287.0	+ 16.0	+ 303.0
1919	1,261.7	951.4	+ 310.3	+ 13.9	+ 324.2
1920	1,267.1	1,428.7	- 161.6	+ 35.0	- 126.6
1921	800.4	827.8	- 27.4	+ 42.0	+ 14.6
1922	884.1	744.6	+ 139.5	- 46.0	+ 93.5
1923	1,003.9	885.1	+ 118.8	+ 80.3	+ 199.1
1924	1,032.6	789.9	+ 242.7	+ 7.0	+ 249.7
1925	1,241.1	872.4	+ 368.7	+ 19.9	+ 388.6
1926	1,266.5	989.1	+ 277.4	+ 38.0	+ 315.4
1927	1,222.4	1,083.5	+ 138.9	+ 25.5	+ 164.4
1928	1,355.4	1,224.4	+ 131.0	+ 89.2	+ 220.2
1929	1,169.3	1,300.6	- 131.3	+ 74.5	- 56.8
1930	874.6	996.7	- 122.1	+ 2.7	- 119.4
1931	593.7	611.1	- 17.4	+ 90.1	+ 72.7
1932	492.4	418.7	+ 73.7	+ 73.1	+ 146.8
1933	532.3	385.7	+ 146.6	+ 87.8	+ 234.4
1934	652.9	504.8	+ 148.1	+ 109.6	+ 257.7
1935	735.6	542.9	+ 192.7	+ 116.7	+ 309.4
1936	947.9	625.7	+ 322.2	+ 131.0	+ 453.2
1937	1,009.7	796.4	+ 213.3	+ 145.0	+ 358.3

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS 1900 - 1937

(In Millions of Dollars)

	Tourists			Interest and Dividends		
Year	Receipts	Payments	Balance (VI-VII)	Receipts	Payments	Balance (IX - X)
	VI	VII	VIII	IX	X	XI
1900	7.1	5.9	+ 1.2	4.0	36.0	- 32.0
1901	8.0	6.4	+ 1.6	3.9	37.4	- 33.5
1902	11.0	7.5	+ 3.5	5.0	39.4	- 34.4
1903	10.5	7.4	+ 3.1	5.2	40.7	- 35.5
1904	12.8	8.9	+ 3.9	4.5	43.0	- 38.5
1905	13.3	11.4	+ 1.9	5.3	47.4	- 42.1
1906	16.8	15.4	+ 1.4	6.0	51.7	- 45.7
1907	16.2	15.8	+ 0.4	5.5	56.6	- 51.1
1908	19.2	18.1	+ 1.1	4.6	75.9	- 71.3
1909	19.6	19.6	-	8.3	83.9	- 75.6
1910	24.7	25.0	- .3	9.6	92.1	- 82.5
1911	26.2	28.6	- 2.4	8.6	101.5	- 92.9
1912	29.4	33.0	- 3.6	8.7	117.5	- 108.8
1913	30.5	37.2	- 6.7	8.7	137.2	- 128.5
1914	34.8	41.8	- 7.0	16.6	180.9	- 164.3
1915	37.2	29.2	+ 8.0	13.1	173.3	- 160.2
1916	45.8	29.3	+ 16.5	23.6	190.5	- 166.9
1917	55.1	31.5	+ 23.6	28.3	204.1	- 175.8
1918	66.8	34.7	+ 32.1	32.4	214.0	- 181.6
1919	75.9	52.4	+ 23.5	39.6	211.5	- 171.9
1920	91.4	62.5	+ 28.9	46.8	212.9	- 166.1
1921	98.2	57.5	+ 40.7	47.3	234.3	- 187.0
1922	110.5	56.8	+ 53.7	39.9	230.3	- 190.4
1923	130.7	61.8	+ 68.9	40.5	254.0	- 213.5
1924	149.4	68.3	+ 81.1	40.3	242.3	- 202.0
1925	170.4	69.7	+ 100.7	40.2	250.7	- 210.5
1926	182.2	79.1	+ 103.1	45.3	263.4	- 218.1
1927	238.5	108.7	+ 129.8	46.5	257.3	- 210.8
1928	275.2	107.5	+ 167.7	52.9	273.9	- 221.0
1929	309.4	121.6	+ 187.8	61.7	321.8	- 260.1
1930	279.2	100.4	+ 178.8	59.5	348.1	- 288.6
1931	250.8	76.4	+ 174.4	50.3	330.1	- 279.8
1932	212.4	57.4	+ 155.0	39.4	301.2	- 261.8
1933	117.1	50.9	+ 66.2	39.0	263.3	- 224.3
1934	146.0	63.6	+ 82.4	55.4	267.0	- 211.6
1935	214.8	95.6	+ 119.2	62.0	270.6	- 208.6
1936	251.3	110.4	+ 140.9	76.2	310.0	- 233.8
1937	294.7	124.4	+ 170.3	78.8	325.0	- 246.2

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS 1900 - 1937

(In Millions of Dollars)

	Other Current Items			Total of all Current Items		
Year	Receipts	Payments	Balance (XII-XIII)	Receipts (I+VI+IX+XII)	Payments (II+VII+X+XIII)	Balance (V+VIII+XI+XIV)
	XII	XIII	XIV	XV	XVI	XVII
1900	14.5	15.8	- 1.3	181.6	234.2	- 36.6
1901	17.0	19.0	- 2.0	199.1	245.4	- 23.1
1902	26.4	26.1	+ 0.3	232.8	276.4	- 32.0
1903	30.7	29.0	+ 1.7	248.3	328.9	- 74.1
1904	29.4	27.1	+ 2.3	222.8	328.2	- 97.5
1905	38.0	40.7	- 2.7	261.8	363.1	- 87.3
1906	43.8	49.3	- 5.5	320.6	428.7	- 102.0
1907	48.7	59.5	- 10.8	324.2	494.9	- 166.9
1908	46.0	63.0	- 17.0	319.1	439.6	- 134.4
1909	55.2	66.2	- 11.0	352.1	509.3	- 158.3
1910	63.1	77.3	- 14.2	378.2	623.4	- 251.3
1911	65.9	92.7	- 26.8	384.8	729.1	- 363.7
1912	65.1	112.5	- 47.4	454.9	889.0	- 421.3
1913	65.1	121.3	- 56.2	547.2	950.6	- 408.2
1914	73.2	111.4	- 38.2	493.7	804.9	- 288.2
1915	91.0	148.2	- 57.2	755.2	797.9	- 57.3
1916	114.5	262.8	- 148.3	1,256.3	1,245.0	+ 22.9
1917	110.7	340.3	- 229.6	1,749.3	1,572.4	+ 176.0
1918	108.6	343.9	- 235.3	1,417.2	1,515.0	- 81.8
1919	122.0	247.5	- 125.5	1,499.2	1,462.8	+ 50.3
1920	159.9	219.5	- 59.6	1,565.2	1,923.6	- 323.4
1921	124.7	150.2	- 25.5	1,070.6	1,269.8	- 157.2
1922	116.9	121.1	- 4.2	1,151.4	1,152.8	- 47.4
1923	135.3	139.7	- 4.4	1,310.4	1,340.6	+ 50.1
1924	131.3	122.6	+ 8.7	1,353.6	1,223.1	+ 137.5
1925	140.2	145.8	- 5.6	1,591.9	1,338.6	+ 273.2
1926	167.5	156.7	+ 10.8	1,661.5	1,488.3	+ 211.2
1927	171.6	191.8	- 20.2	1,733.9	1,670.7	+ 63.2
1928	163.1	198.3	- 35.2	1,962.1	1,830.4	+ 131.7
1929	150.6	217.3	- 66.7	1,766.6	1,962.4	- 195.8
1930	121.6	178.9	- 57.3	1,375.2	1,661.7	- 286.5
1931	96.6	142.2	- 45.6	1,081.5	1,159.7	- 78.2
1932	75.2	137.5	- 62.3	892.5	914.8	- 22.3
1933	67.9	124.2	- 56.3	844.1	824.1	+ 20.0
1934	72.2	125.9	- 53.7	1,036.1	961.3	+ 74.8
1935	88.3	131.4	- 43.1	1,217.4	1,040.5	+ 176.9
1936	101.9	153.7	- 51.8	1,509.3	1,200.8	+ 308.5
1937	136.9	201.1	- 64.2	1,665.2	1,447.0	+ 218.2

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS 1900-1937

(In Millions of Dollars)

	Capital Imports and Exports arising from				
	Changes in British and Foreign holdings of Canadian Securities			Purchases and Sales of outstanding Canadian, British and Foreign Securities	All other forms of private investments in Canada and Canadian investments in other countries
Year	By New Issues	By Maturities, Redemptions, etc.	Balance	Balance	Balance
	XVIII	XIX	XX	XXI	XXII
1900			+ 6.4		+ 23.4
1901			+ 11.3		+ 23.8
1902			+ 15.8		+ 24.5
1903			+ 27.5		+ 24.2
1904			+ 33.6		+ 25.3
1905			+ 69.5		+ 40.0
1906			+ 62.6		+ 39.7
1907			+ 51.7		+ 39.4
1908			+173.3		+ 44.8
1909			+209.0		+ 40.4
1910			+202.0		+ 106.2
1911			+255.5		+ 87.9
1912			+236.1		+ 80.0
1913			+463.2		+ 78.5
1914	197.1	4.5	+298.1	- 3.0	+ 1.2
1915	236.7	54.0	+179.0	- 5.0	+ 0.4
1916	315.0	56.3	+254.2	- 8.0	+ 8.2
1917	196.2	68.7	+126.9	- 10.0	+ 12.4
1918	56.4	66.5	- 12.8	- 10.0	+ 6.3
1919	239.4	216.2	+ 25.1	- 40.0	+ 30.9
1920	221.5	61.0	+153.7	- 55.0	+ 13.5
1921	246.3	113.9	+123.6	- 40.0	+ 26.1
1922	292.6	80.4	+210.3	- 20.0	- .01
1923	156.3	51.0	+109.6	- 40.0	+ 9.0
1924	280.6	146.2	+143.0	- 50.0	- 0.4
1925	239.8	231.4	+ 13.0	- 80.0	+ 14.6
1926	326.2	165.9	+161.0	- 135.0	+ 26.3
1927	300.6	160.0	+140.6	- 184.0	+ 12.6
1928	207.3	200.0	+ 7.3	- 188.0	+ 6.1
1929	282.6	150.0	+132.6	- 105.0	+ 34.0
1930	400.3	110.0	+290.3	- 13.0	+ 31.9
1931	216.3	207.0	+ 9.3	- 24.0	+ 32.8
1932	103.7	104.7	- 1.0	- 16.0	- 32.1
1933	137.6	163.7	- 26.1	+ 51.0	- 75.3
1934	111.0	169.0	- 58.0	+ 8.9	- 47.8
1935	113.1	267.5	-154.4	+ 51.0	- 70.2
1936	106.1	270.0	-163.9	+ 7.8	- 100.2
1937	89.5	177.9	- 88.4	- 4.8	- 92.6

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS 1900 - 1937

(In Millions of Dollars)

Year	Capital Imports and Exports arising from: Dominion Government's dealings with other governments on account of war finance — Net	Capital Imports and Exports arising from: Total net long-term capital movement (XX+XXI+XXII+XXIII)	Capital movements arising from net change in Canadian bank balances in other countries	Residual item: amount required to balance because of errors and omissions (Errors and Omissions=XVII + XXIV+XXV)
	XXIII	XXIV	XXV	XXVI
1900		+ 29.8	+ 12.1	- 5.3
1901		+ 35.1	- 24.6	+ 12.5
1902		+ 40.3	- 2.0	- 6.3
1903		+ 51.7	+ 20.4	+ 2.0
1904		+ 58.9	- 23.4	+ 62.0
1905		+ 109.5	- 10.4	- 11.8
1906		+ 102.3	+ 13.3	- 13.6
1907		+ 91.1	+ 25.9	+ 49.9
1908		+ 218.1	- 99.0	+ 15.3
1909		+ 249.4	- 31.8	- 59.3
1910		+ 308.2	+ 33.5	- 90.4
1911		+ 343.4	+ 8.7	+ 11.6
1912		+ 316.1	+ 8.4	+ 96.8
1913		+ 541.7	- 15.9	- 117.6
1914	+ 24.3	+ 320.6	+ 21.2	- 53.6
1915	+ 60.4	+ 234.8	- 113.4	- 64.1
1916	- 52.6	+ 201.8	- 129.4	- 95.3
1917	- 113.1	+ 16.2	+ 10.8	- 203.0
1918	- 119.3	- 135.8	- 28.5	+ 246.1
1919	- 25.6	- 9.6	- 21.7	- 19.0
1920	+ 31.0	+ 143.2	+ 42.4	+ 137.8
1921	+ 27.9	+ 137.6	+ 144.4	- 124.8
1922	+ 46.8	+ 237.1	+ 27.0	- 216.7
1923	+ 63.8	+ 142.4	- 12.7	- 179.8
1924	+ 20.7	+ 113.3	- 15.7	- 235.1
1925	+ 1.9	- 50.5	- 92.8	- 129.9
1926	+ 2.3	+ 54.6	- 51.8	- 214.0
1927	+ 10.5	- 20.3	+ 16.1	- 59.0
1928	+ 6.0	- 168.6	+ 86.6	- 49.7
1929	+ 4.5	+ 66.1	+ 87.8	+ 41.9
1930	+ 6.5	+ 315.7	- 0.4	- 28.8
1931	+ 1.3	+ 19.4	+ 27.7	+ 31.1
1932	-	- 49.1	+ 37.7	+ 33.7
1933	-	- 50.4	+ 23.9	+ 6.5
1934	-	- 96.9	- 18.9	+ 41.0
1935	-	- 173.6	+ 0.1	- 3.4
1936	-	- 256.3	+ 2.6	- 54.8
1937	-	- 185.8	- 13.0	- 19.4